



FinScope

Micro, Small and Medium Enterprise Survey

Eswatini 2017 Report

CONTENTS

LIST OF FIGURES.....	III
ACRONYMS AND ABBREVIATIONS.....	V
ACKNOWLEDGEMENTS.....	VII
EXECUTIVE SUMMARY.....	1
1. INTRODUCTION.....	4
1.1 METHODOLOGY.....	4
1.1.1 Sampling.....	5
1.1.2 Questionnaire design.....	8
2. BACKGROUND ON THE ESWATINI ECONOMY.....	10
2.1 PRIVATE SECTOR DEVELOPMENT IN ESWATINI.....	12
2.2 THE ROLE OF MSMES IN ECONOMIC DEVELOPMENT.....	12
2.3 INSTITUTIONAL FRAMEWORK TO PROMOTE MSME DEVELOPMENT.....	12
2.3.1 Small and Medium Enterprise Unit (SME Unit).....	13
2.3.2 The Eswatini Investment Promotion Authority (SIPA).....	13
2.3.3 The Small Enterprise Development Company (SEDCO).....	13
2.3.4 Eswatini Development Finance Corporation (FINCORP).....	13
2.3.5 The Federation of Eswatini Employers and Chamber of Commerce (FSE & CC).....	14
3. MSME OWNER PROFILE.....	15
3.1 AGE.....	16
3.2 GENDER.....	17
3.3 LEVEL OF EDUCATION.....	19
3.4 MOTIVATION FOR STARTING A BUSINESS.....	19
3.5 LOCATION (URBAN/RURAL AND PROVINCE).....	21
3.6 PERSONAL INCOME AND BUSINESS TURNOVER.....	23
4. THE MSME SECTOR IN ESWATINI.....	27
4.1 BUSINESS SECTOR.....	29
4.2 BUSINESS SIZE.....	30
4.3 SOURCES OF START-UP CAPITAL.....	32
4.4 EMPLOYMENT TRENDS BY SECTOR.....	33
4.5 BUSINESS DEVELOPMENT MEASURES (BDM).....	34
4.6 AWARENESS AND USAGE OF BUSINESS SUPPORT INFRASTRUCTURE.....	41
5. FINANCIAL INCLUSION OF MSMES.....	43
5.1 BANK ACCOUNT: ACCESS AND USAGE.....	46
5.2 MOBILE MONEY ACCOUNT OWNERSHIP AND USAGE.....	48
5.3 ACCESS TO CREDIT.....	49
5.4 SAVINGS AND INVESTMENT.....	50
5.5 INSURANCE AND RISK MITIGATION.....	51

5.6	FINANCIAL ACCESS BY BUSINESS DEVELOPMENT MEASURE.....	51
6.	HIGH GROWTH MSMES: PROFILE AND GROWTH CONSTRAINTS.....	55
6.1	HIGH GROWTH MSMES: OWNER PROFILE.....	56
6.2	BUSINESS CHARACTERISTICS.....	58
6.3	EMPLOYMENT POTENTIAL.....	63
6.4	GROWTH CONSTRAINTS AND BUSINESS SUPPORT.....	61
7.	CONCLUSIONS AND IMPLICATIONS FOR STAKEHOLDERS.....	64
7.1	CONCLUSIONS.....	64
7.2	IMPLICATIONS FOR STAKEHOLDERS.....	65
7.2.1	Recommendations for policy-makers.....	65
7.2.2	Recommendations for NGOs and other development agencies.....	67
7.2.3	Recommendations for financial service providers (FSPs).....	67
	REFERENCES.....	68
	ANNEXURE 1 - SAMPLING AND WEIGHTING REPORT.....	69
	ANNEXURE 2 - BUSINESS DEVELOPMENT MEASURE	
	TECHNICAL NOTE.....	73
	APPENDIX A: BDM20 REGRESSION OUTPUT AND COEFFICIENTS.....	76
	CONTACT.....	78

LIST OF FIGURES

FIGURE 1:	DEFINING MSMES.....	15
FIGURE 2:	AGE OF MSME OWNERS (% OF MSME OWNERS).....	17
FIGURE 3:	GENDER OF MSME OWNERS (% OF MSME OWNERS).....	18
FIGURE 4:	LEVEL OF EDUCATION OF MSME OWNERS (%).....	20
FIGURE 5:	REASONS FOR STARTING A SMALL BUSINESS (% OF MSME OWNERS)	21
FIGURE 6:	LOCATION OF MSME OWNERS (%).....	21
FIGURE 7:	REGIONAL DISTRIBUTION OF MSME OWNERS (%).....	22
FIGURE 8:	BUSINESS SIZE BY REGION (%).....	23
FIGURE 9:	BUSINESS SECTOR IN WHICH MSMES OPERATE (%).....	29
FIGURE 10:	BUSINESS SIZE (%).....	31
FIGURE 11:	BUSINESS SIZE BY LEVEL OF EDUCATION (%).....	31
FIGURE 12:	SOURCE OF START-UP CAPITAL (%).....	32
FIGURE 13:	EMPLOYMENT TRENDS BY SECTOR (%).....	33
FIGURE 14:	BUSINESS DEVELOPMENT IN ESWATINI (%).....	36
FIGURE 15:	BDM BY REGION (%).....	36
FIGURE 16:	BDM DISTRIBUTION BY AGE (%).....	37
FIGURE 17:	BDM BY SECTOR (%).....	38
FIGURE 18:	BDM BY BUSINESS SIZE (%).....	39
FIGURE 19:	BDM BY GENDER (%).....	40
FIGURE 20:	BUSINESS LICENSING AND REGISTRATION (%).....	40
FIGURE 21:	OWNER'S PERCEPTION OF BUSINESS PERFORMANCE ACROSS BDM CATEGORIES (%).....	41
FIGURE 22:	AWARENESS AND USAGE OF BUSINESS SUPPORT INFRASTRUCTURE (%).....	42
FIGURE 23:	FINANCIAL INCLUSION FRAMEWORK.....	43
FIGURE 24:	FINANCIAL INCLUSION AMONG MSME OWNERS.....	44
FIGURE 25:	OVERLAPS AND FINANCIAL ACCESS STRAND (%).....	45
FIGURE 26:	CROSS-COUNTRY COMPARISON OF MSME FINANCIAL ACCESS STRAND (%).....	45
FIGURE 27:	ACCESS STRANDS FOR MSMES ACROSS SIZE CATEGORIES (%).....	48
FIGURE 28:	FINANCIAL ACCESS STRAND OF MSMES BY SECTORS (%).....	49
FIGURE 29:	MOBILE MONEY ACCOUNT OWNERSHIP AMONG MSME OWNERS (%).....	50
FIGURE 30:	CREDIT STRANDS FOR MSME OWNERS (%).....	51
FIGURE 31:	SAVINGS STRANDS (%).....	51
FIGURE 32:	INSURANCE STRANDS (%).....	52
FIGURE 33:	FINANCIAL ACCESS STRAND BY BDM (%).....	52
FIGURE 34:	CREDIT STRAND (%).....	53
FIGURE 35:	SAVING STRANDS (%).....	53
FIGURE 36:	INSURANCE STRANDS (%).....	56
FIGURE 37:	AGE OF HIGH GROWTH MSME OWNERS (%).....	57

FIGURE 38:	GENDER OF HIGH GROWTH MSME OWNERS (PROPORTION OF GENDER GROUP) %.....	57
FIGURE 39:	LEVEL OF EDUCATION OF OWNERS OF HIGH GROWTH MSMES (%).....	58
FIGURE 40:	DISTRIBUTION OF HIGH GROWTH MSMES ACROSS REGIONS (%).....	59
FIGURE 41:	HIGH GROWTH MSMES BY AGE OF THE BUSINESS (% PROPORTION OF GROUP).....	59
FIGURE 42:	HIGH GROWTH MSMES BY SIZE (% PROPORTION OF GROUP).....	60
FIGURE 43:	SECTORAL DISTRIBUTION OF HIGH GROWTH MSMES (% PROPORTION OF GROUP).....	60
FIGURE 44:	BUSINESS DEVELOPMENT LEVELS OF HIGH GROWTH MSMES (% PROPORTION OF GROUP).....	61
FIGURE 45:	HIGH GROWTH MSMES ACROSS BUSINESS SIZE CATEGORIES (% PROPORTION OF GROUP).....	61
FIGURE 46:	CHALLENGES FACED BY HIGH GROWTH MSME ACROSS BUSINESS SECTORS (% PROPORTION OF GROUP).....	62
FIGURE 47:	AWARENESS AND USAGE OF MSME SUPPORT SERVICE AMONG HIGH GROWTH MSME OWNERS (% PROPORTION OF GROUP).....	63

ACRONYMS AND ABBREVIATIONS

AGOA	African Growth and Opportunity Act
BSD	Bank Supervision Division
CFI	Centre For Financial Inclusion
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CSO	Eswatini Central Statistics Office
DFID	Department for International Development
EA	Enumeration Areas
EBDC	Entrepreneurship Business Development Centre
FAO	Food and Agriculture Organisation
FESBC	The Federation of the Eswatini Business Community
FINCORP	Eswatini Development Finance Corporation
FSE & CC	The Federation of Eswatini Employers and Chamber of Commerce
GDP	Gross Domestic Product
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
MCIT	Ministry of Commerce Industry & Trade
MFU	Micro Finance Unit
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
NBFIs	Non-Bank Financial Institutions
PPS	Probability Proportional to Household Size
PSU	Primary Sampling Units
SACU	Southern African Customs Union
SADC	Sothern African Development Community
SARB	South African Reserve Bank
SEDCO	The Small Enterprise Development Corporation
SIDC	Eswatini Industrial Development Company Limited
SIPA	The Eswatini Investment Promotion Authority
MSME	Small and Medium-Sized Enterprises
SMME	Small, Medium and Micro-Sized Enterprises
SNAU	Eswatini National Agricultural Union
SOEs	State Owned Enterprises

SRA	Eswatini Revenue Authority
SSU	Secondary Sampling Units
SWADE	Eswatini Water and Agricultural Development Enterprise
SWASA	Eswatini Standards Authority
UNISWA	The University of Eswatini
UNDAF	United Nations Development Assistance Framework

ACKNOWLEDGEMENTS

This report was authored jointly by FinMark Trust and Ipsos SA¹.

FinScope MSME Eswatini 2017 was designed to involve a range of stakeholders engaging in a comprehensive consultative process, thereby enriching the survey and ensuring appropriateness and buy-in. We would like to thank all individuals who participated in this project in their personal and institutional capacity, without which the project would not have been successful.

The survey was carried out under the auspices of the Ministry of Finance through its arm – Micro Finance Unit and funded by the RFEDP/MFU and IFAD.

A Steering Committee chaired by the Ministry of Finance was set up which comprised representatives from the of the Ministry of Finance (David Mfanimpela Myeni, (CEO of the MFU), Sicelo James Manyatsi (Programme Officer, MFU)), FMT Project Manager and Researchers (Obert Maposa, Jabulani Khumalo and Abel Motsomi), Central Bank of Eswatini (CBS), the SME Unit under the Ministry of Commerce Industry and Trade, Eswatini Development Finance Corporation (FINCORP), Small Enterprise Development Company (SEDCO) and FMT Local Project Coordinator (Sabelo Junior Mabuza).

Further, we would like to thank CSO for their vital contributions (especially Hanson Dlamini and Choice Ginindza) in providing statistical oversight of the survey, including sampling and weighting of the data. In addition, CSO played an important role in the training of the enumerators and the quality control process during fieldwork.

Last but not least we would like to acknowledge the research suppliers Ipsos SA and fieldwork team and thank their staff including their supervisors, coordinators, and enumerators, as well as the office staff who worked tirelessly on this survey.



1 The authors of this report were Obert Maposa, Ashenafi Fanta and the Ipsos team.

TERM	DEFINITION
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Adults	Those people aged 18 years or older.
Banked	Individuals using one or more traditional financial products supplied by commercial banks.
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Demand-side barriers	Demand-side barriers to access financial services relate to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy and lack of trust in financial institutions.
Enumeration Area (EA)	Enumeration area (EA) is a well identified territorial unit containing the prescribed population size (usually about 80 to 120 households) in which enumeration is to be carried out by a single enumerator within a specified period of enumeration.
Other formal	Financial products/services supplied by formal financial institutions which are not banks.
Formal products	Products provided by government regulated financial institutions such as commercial banks, insurance companies and microfinance institutions.
Formally included	MSME owners using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Financial Access Landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance.
Financially served	MSME owners using one or more formal and/or informal financial products/services.
Financially excluded	MSME owners who are not using any formal or informal financial products/services.

Financially inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal.
Informal products	Financial services provided by individuals and/or associations which are not regulated by government such as savings clubs and private moneylenders.
Informally only served	MSME owners who are not using any formal financial products but who are using one or more financial products/services supplied from an informal source, such as a savings club or informal moneylender.
Informally served	MSME owners who make use of informal financial products (regardless of whether or not they use formal financial services and products).
MSME	Micro, Small and Medium Enterprises (MSME) are defined by the number of employees (according to the Eswatini SMME Policy of 2009) who employ less than 50 employees and an annual turnover of up to E8 million. For the purposes of the study, only number of employees were used to segment the sector from independent (0 employees), micro (1-3 employees), small (4-10 employees) and medium (11-50 employees).
Insurance	Payment of a premium for risk of an event happening, where payout is made if or when the event occurs.
Supply-side barriers	Supply-side barriers to access to financial services relate to factors inherent to financial service providers that prevent individuals from using their services such as location of access points and the cost of using their services.
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments.
Formal MSME	MSME owners that have either registered their business with an authority such as the Ministry of Commerce, Industry and Trade or have a license to operate from an authority such as the municipality.

Note: Some graphs add up to more than 100% due to multiple mentions or overlaps, i.e. the respondent could give more than one answer or belong to more than one category. As such, the graph includes overlaps in responses and cannot be added to 100%.

EXECUTIVE SUMMARY

The Government of Eswatini has been working towards the development of the Micro, Small and Medium Enterprises (MSME) sector. This is clear from the SMME Policy (2009), Micro Finance policy, Financial Sector Development Implementation Plan, Financial Sector Development Strategy and National Financial Inclusion Strategy. This report is prepared to provide insight into the Eswatini MSME sector using FinScope Eswatini MSME 2017 survey with the aim of allowing stakeholders to understand the characteristics of MSMEs, their owners and the challenges they face as this is useful in crafting strategies useful in accelerating MSME development in the country. The report used graphical analysis of profile of MSME owners, characteristics of small and medium businesses they own and the challenges they face in running their businesses. Although a myriad of studies exists concerning the sector, few, if any, have been developed to accurately capture the informal businesses that dominate the MSME sector.

Thus, in trying to understand and unlock the full potential of the sector, a FinScope MSME survey was conducted between October 2016 and March 2017. The main objective was to size and scope the MSMEs in Eswatini while describing the levels of access to financial products and services (both formal and informal). The study also attempted to identify the most binding constraints to MSME development with a focus on access to financial markets. The study also segmented the MSME sector into different categories in an effort to identify the needs of each segment and come up with recommendations for promotion of the segments. The following useful insights have been gained:

- **People:** The overall Eswatini MSME sector is estimated to consist of 59 283 business owners (10 percent of the population own MSMEs) and employs approximately 93 000 people (16 percent of the total working age population). MSME business owners in Eswatini are typically local citizens who are 35 years or older. Most are married under customary or traditional law and reside in properties that they fully own. It was found that MSME business owners are the head of the household and 74 percent are based in rural areas. There are more female MSME business owners (65 percent) than male business owners (35 percent), with most identifying as individual entrepreneurs. Three quarters (75 percent) rely on their business as their only source of personal income. The average number of people employed by the sector per business is 0.82, while 17 percent of MSME businesses have full-time employees (10 109 MSME businesses estimated total number). Male employees are generally paid a wage while female employees are often paid in kind. The largest proportion of MSME business owners operate in the agricultural sector specializing in crop cultivation. The educational background of Eswatini MSME business owners is diverse, with 72 percent having a secondary education qualification or higher. Looking at the business skills - 46 percent taught themselves the skills required to manage a business, with 11 percent indicating some work experience before venturing into their own business.

- The MSME sector: As of January 2017, there were 59 289 Micro, Small and Medium Enterprises business owners with an average of 1.14 businesses per owner. Business owners surveyed comprised 75 percent independent entrepreneurs, 18 percent micro businesses, 7 percent small businesses and 1 percent medium businesses. About a quarter (26 percent) of these businesses operate in the agricultural sector, followed by 11 percent of businesses in manufacturing. The most common place of business for most MSMEs is from a residential premise with the most businesses located in the rural areas. Three quarters of businesses are not licensed with a professional body – those surveyed cited their business being too small as the main reason for not registering. With regards to the number of years that these businesses have been in existence, 32% are still in the start-up phase (0 – 2 years of existence). 6% of Micro, Small and Medium Enterprises export to customers outside of Eswatini.
- Nearly half (45 percent) used own savings to start-up their businesses. While the MSME owners primarily rely on their own savings, 24% sought external financing and credit –receiving it mainly from informal channels such as savings groups and friends and family as well as formal channels such as commercial banks and savings and credit groups.
- A quarter of the MSMEs owners are the youth: Young entrepreneurs constitute a quarter of MSME owners in Eswatini which shows the potential of the MSME sector in alleviating youth unemployment problem. It also contributes to the government’s effort of promoting economic empowerment of young people in Eswatini. The young entrepreneurs may have limited business experience and this provides opportunity for the government to expand business support services to these group of MSME owners particularly through incubation programmes.
- Swazi women are more likely to own micro-enterprises and less likely to own small and medium firms. Two thirds of MSME owners are women but most of them run independent enterprises (no employee) and also proportionately fewer women own high growth MSMEs. This calls for provision of training programs tailored to women MSME owners to enable them to grow their businesses.
- Most MSME owners have secondary education and higher: Nearly two-thirds of the MSME owners have secondary education. This figure is significant given the fact that secondary education penetration is 25 percent in the country. The bulk of businesses are least developed. Businesses in the MSME sector show low level of business development with the micro and small businesses more likely to be underdeveloped. There is a lack of development on part of business owners with many involved in buying and selling of goods or products without adding any value. Furthermore, many of the businesses are involved in

similar activities. This phenomenon of 'copy-cat' businesses is largely common in survivalist businesses simulating the same trade as the next business owner with little or no differentiation in offering. Most MSME businesses do not have any bookkeeping, filing or record keeping systems in place.

- Recommendations include policy revision with an industrialisation focus and further understanding of the business environment. Further study of the supply-side of financial services to get a fuller understanding of the financial supply of goods and services as well as policy and regulation of the MSME sector. The MSME sector is constrained by a manifold of factors that are not part of the regulatory business environment – insufficient entrepreneurial, managerial and technical skills, weak financial services usage (amidst high uptake), low levels of innovation and specialization among others. Other recommendations included value chain analyses, improving awareness of support infrastructure available to MSMEs and developing innovative products that are tailored to highly cash-driven economy that the MSMEs operate in.

1. INTRODUCTION

The Government of Eswatini has placed a considerable emphasis on the Micro, Small and Medium Enterprises (MSME) sector recognising the crucial contribution the sector can make towards economic growth, job creation and poverty alleviation. Development of the MSME sector is an integral element of Small, Micro and Medium Enterprises Policy (2009) and easing small business access to finance using alternative financing schemes is part of the Micro Finance policy, Financial Sector Development Implementation Plan and National Financial Inclusion Strategy.

Thus, in trying to understand and unlock the full potential of the sector, a FinScope MSME survey was conducted with the aim to size and scope the MSMEs in Eswatini while describing the levels of access to financial products and services (both formal and informal). The study also attempted to identify the most binding constraints to MSMEs development with a focus on access to financial markets as well as segmenting the MSME sector into different categories in an effort to identify the needs of each segment and come up with recommendations for promotion of the segments.

This report presents the Eswatini MSME sector by reviewing the role of the sector in the country's economic growth and poverty reduction endeavours. The legal and institutional framework required to ensure a sustainable MSME sector has been highlighted based on review of strategic documents prepared by different government departments. The demographic profile of MSME owners, the profile of small businesses and financial access are presented based on FinScope MSME Eswatini 2017 survey. This report places special emphasis on developed or high growth MSMEs with the aim to draw policy attention to a group of MSMEs that can transform the MSME sector if accorded the necessary support.

1.1 Methodology

The FinScope MSME Survey is a nationally representative survey developed by FinMark Trust focusing on MSME owners and their financial service needs. The specific objectives of the survey were to:

- Assess the size and scope of MSME's in Eswatini (both formal and informal);
- Describe the levels and landscape of access to financial products and services (both formal and informal);
- Identify the most binding constraints to MSME's development and growth with a focus on access to financial markets;
- Identify and describe different market segments with specific development needs to stimulate segment-related innovation; and
- Propose recommendations regarding financial assistance to MSME's and financial policies.

The FinScope MSME Eswatini survey was designed to engage a broad range of stakeholders in a comprehensive and intensive consultative process. This process aimed to enrich the survey and ensure that the results contributed meaningfully to members who have a common interest in developing the sector. A Steering Committee (SC) was set up and chaired by the Ministry of Finance through its arm the Micro Finance Unit (MFU) and comprised of representatives from FinMark Trust, Eswatini Central Statistical Office (CSO), The Central Bank of Eswatini, The Small and Medium-Sized Enterprises (SME) Unit in the Ministry of Commerce Industry & Trade (MCIT), among others. All stakeholders involved played an integral role in the design of the survey instruments and provided valuable insight into the sector and unpacking of the results

1.1.1 Sampling

The survey sample was of all adults in the Kingdom of Eswatini who perceived themselves to own an MSME. MSME's are defined by the number of employees only for this study as per the SMME Policy of 2009. This includes independent entrepreneurs (without any employees), micro businesses (0 to 3 employees), small businesses (4 to 10 employees) and medium businesses (11 to 50 employees). A nationally representative sample of MSME owners was drawn from the Eswatini adult population, including those business owners who are:

- 18 years or older;
- Perceive themselves to be business owners/generating an income through business activities; and
- Employing 50 people or fewer (this includes independent entrepreneurs without any employees).

The FinScope MSME Survey Eswatini 2017 is based on a nationally representative sample of 3024 business owners across the four regions in Eswatini. The CSO provided the sample frame based on the 2007 population census and weighted the data to represent the current population estimate of Eswatini.

Sampling strategy: A multi-stage sampling approach was used, including an initial listing phase. The listing exercise was performed at each of the 405 Enumeration areas (EAs) to identify the households where a business owner(s) lives to make the sampling frame. Once a sample frame of households with business owner(s) these would then be randomly selected taking into consideration the size of the business they own. Each of the micro, small and medium sized business owners had different criteria for selection.

As generally fewer businesses are medium sized, when selecting randomly, a minimum of 3 medium, where applicable, would be pre-selected to allow representation of medium enterprises. The same sampling approach was applied to small enterprises. All other smaller businesses were open to random selection as their probability to selection was very high. This was done after learnings from other markets showed under-representativeness in the data of small and medium enterprises. A similar call was made to the selection of rural versus urban households. As urban centres generally have a higher proportion of MSMEs being highly heterogeneous in nature, 12 households were selected in urban EAs while 6 households were selected in rural EAs. A step-by-step process of sampling is available in the technical report.

Sampling units: Enumeration areas (EAs) were the primary sampling units (PSU), while qualifier households (those with business owners) were secondary sampling units (SSU), and individuals selected by the Kish Grid from a list of eligible respondents (business owners) at every selected qualifier household were tertiary and ultimate sampling units.

A total of 405 EAs were sampled using probability proportional to household size (PPS) based on the CSO 2007 census. These EAs included 95 urban and 310 rural areas. All households in the selected EAs were then listed constituting roughly 62 180 households. Within the households, all MSME owners were identified.

Within each selected EA, six qualifier households within rural EAs and twelve qualifier households within urban EAs were systematically selected from the listed MSMEs. The selection process used for households with more than one business owner included the use of a Kish Grid to randomly select the qualifying household member. A total of 3 024 interviews with MSME owners were conducted by Ipsos during the 4th of October 2016 to the 10th of March 2017.

Table 1: Overview of the methodology

Description	Details
Methodology	Computer Assisted Personal Interviews (CAPI)
Definition of MSME owners	Survey of MSME owners, defined as individuals who are: <ul style="list-style-type: none"> • 18 years or older; • Perceiving themselves to be business owners/generating an income through some business activities; • Employing 50 people or fewer, including independent entrepreneurs without any employees
Sample size	n=3024. Nationally representative sample including both urban and rural areas. The sample was drawn by the CSO based on the 2007 census
Sampling frame	Listing phase, population stratified by location (Urban/Rural)
Sample area selection	405 EAs were selected, interviews were conducted in 95 urban and 310 rural EAs
Household qualification	6 households were selected from rural EAs 12 households were selected from urban EAs
Questionnaire Length	70 minutes
Fieldwork	4 th of October 2016 – 10 th of March 2017
Data Management	Weighting was done by the CSO and FMT

1.1.2 Questionnaire design

A draft questionnaire for the FinScope MSME survey was developed by FMT, focusing on small businesses and their financial service's needs. A steering committee was appointed to review and update the draft questionnaire to ensure that all objectives were met and local contextualisation observed. The final questionnaire was approved by the MFU and members of the steering committee.

The final questionnaire covered the following objectives and sections:

- Characteristics of MSMEs based on several key criteria
- Description of the demographics of business owners
- Description of the size and scope of the MSME sector in Eswatini comparing to other sectors in the economy
- Determining the levels of financial access (formal and informal) including evolving demand and supply for finance
- Description of the landscape of access (i.e. type and extent) of financial products – bank and non-bank utilization, as well as non-financial services
- Identifying the drivers and barriers to financial access for MSME's
- Segmenting the MSME sector into different market segments and specific fields
- Identifying the available SME policies and assistance provided to MSME's
- Identifying the needs of the different market segments to stimulate segment related product innovation
- Identifying mechanisms to strengthen the MSME sector.

The questionnaire was developed in English and then later translated into local SiSwati. A local linguist/translator from the University of Eswatini evaluated each question for ease of translation and made recommendations to guide proper translation. The steering committee was then consulted regarding the translated questionnaire, and they gave their final approval prior to fieldwork. Ipsos pre-tested the questionnaire in field by conducting a few pilot face-to-face interviews as a final check of the translation quality.

The FinScope MSME questionnaire was scripted on Survey to Go (Dooblo platform). Once programmed, the scripted version of the questionnaire was tested to ensure

that all questions were correctly routed. More information on the methodology is available in the technical report.

The rest of the report is organised as follows. Section 2 presents overview of Eswatini economy by emphasising on the role of MSMEs in economic development. It also presents the legal and institutional framework in place to promote MSME development in the country.

2. BACKGROUND ON THE ESWATINI ECONOMY

Eswatini is a land-locked country covering an area of approximately 17,360 km². The population of the Kingdom of Eswatini is estimated at 1,451 million, it is classified as a low-middle income country and has a Gross Domestic Product (GDP) at market prices of US \$3.43 billion (CIA,2017).

Mostly surrounded by South Africa, Eswatini depends on South Africa for 60% of its exports and for more than 90 percent of its imports. Eswatini's currency is fixed to the South African Rand, effectively relinquishing Eswatini's monetary policy to South Africa. The government is heavily dependent on customs duties from the Southern African Customs Union (SACU), and worker remittances from South Africa to supplement domestically earned income. The real GDP growth slowed from 2.5 percent in 2014 to 1.7 percent in 2015, the main reason for this was the drought that the country experienced and a very poor performance in key export destinations, notably South Africa. This was compounded by the country's loss of eligibility under the African Growth and Opportunity Act (AGOA) in January 2015. Eswatini's GDP per capita makes it a lower-middle income country, but its income distribution is highly skewed, with an estimated 20 percent of the population controlling 80 percent of the nation's wealth. Despite its classification as a low-middle income country, the incidence of poverty is high, with an estimated 63percent of the population living below the poverty line (World bank, 2014).

One major social challenge in Eswatini is the high rate of HIV/AIDS (27 percent adult prevalence rate), while other issues include an unemployment rate of 28.1 percent (citizens who looked for work and were available to work, as per the labour force survey of 2013/14 from the Ministry of Labour & Social Security). These challenges showcase the need for Eswatini to increase the number and size of MSME's and to attract foreign direct investment to help address social challenges and improve the quality of life for the population of Eswatini. After losing its benefits under African Growth and Opportunity Act (AGOA), Eswatini lost thousands of jobs, further contributing to the high unemployment rate. The country has a low Human Development Index (HDI), a composite statistic of life expectancy, education, and per capita income indicators, which is used to rank countries into four tiers of human development. Eswatini ranks 148 on this index, as per the United Nations Human Development Report. Eswatini's HDI score of 0.541 is mainly due to the high mortality rate, underdeveloped labour markets and mistrust in national government.

Eswatini is amongst the smallest countries in the world in terms of land size and population. About 78 percent of the population reside in rural areas and 22 percent in urban areas. The main urban centres are Mbabane, the administrative capital, and Manzini, the commercial hub. The two cities, and the corridor between them, support approximately 75 percent of the country's urban population. Growth in both Manzini and Mbabane has been largely informal and approximately 60 percent of

urban households live in unplanned and un-serviced informal settlements. With increased urbanisation, access to sanitation, electricity and waste management services are not always attainable. To address these challenges, the government has committed to prioritising urban development through initiatives such as the urban development programme. The urban development programme is aimed at increasing urban management efficiency and improving living conditions of low income urban households by providing basic services and housing. The project includes:

- the rehabilitation and expansion of city roads
- development of new solid waste sites
- provision of solid waste equipment and relocation of 15 kilometres of power lines
- rehabilitation and expansion of water and sewerage services including refurbishing existing and constructing new sewage treatment and water supply facilities and a water loss reduction program
- residential housing sites including on-site infrastructure for 5,000 upgraded and in-fill housing sites

This programme will be beneficial to MSME owners since they experience physical limitations such as poor infrastructure while it also allows opportunities for MSME products and services to be sold to government.

Eswatini's economic growth is projected to be low due to the slowdown in economic activity in the primary sector and the tertiary sector as per the Central Bank's annual report. Agricultural activities were negatively affected by the drought (2015 - 2016), while the mining sector experienced poor performance in 2016 due to tough international prices. This alludes to a change in focus for countries like Eswatini towards industrialisation to minimise commodity price fluctuations risk and increase employment and reduce the trade deficit.

The tourism sector was heavily affected by South Africa's immigration regulations requiring travellers with minors to submit unabridged birth certificates. Many tourists have therefore been discouraged from travelling to Eswatini since South Africa is a major transit country. The textile and apparel sector were affected by the termination of Eswatini's benefits under AGOA, therefore very little activity is expected in this sector.

There are some good prospects in the construction sector due to public sector projects such as the International Convention Centre and many road infrastructure construction projects that were highlighted in the 2017/18 national budget. The involvement of the MSME sector in this may be minimal as large companies may have better proposals.

2.1 Private sector development in Eswatini

Although Eswatini has a small private sector, the National Development Strategy (NDS) underlines the potential contribution of the sector. The power of the private sector to transform the country, delivering broad-based and inclusive economic growth, has been recognised in the strategy. This is due to the fact that the private sector has the potential to absorb sizeable portion of the workforce.

The MSME sector can play a crucial role in building a vibrant private sector and hence interventions are needed to promote MSME development as part of entrepreneurship development programme where the role of MSMEs is in job creation and urbanisation. Expansion of credit to the private sector is also part of the strategy in which introducing innovative financing schemes is considered as an important measure to ease MSME access to finance.

2.2 The role of MSMEs in economic development

The MSME sector in Eswatini is reportedly small compared to other countries in the Southern African sub-region. It has been reported that the MSME sector in Eswatini has the potential to provide employment opportunity to 65 percent of the work force and contribute to over 50 percent of national output (Ipsos, 2017). However, the recent report by FinMark Trust (2017) indicated that the MSME sector in the country employs 92 thousand people and these currently constitute only about 21 percent of the work force.

Most businesses in the MSME sector are micro enterprises with limited employment capacity. The MSME sector is also expected to play an important role in the economic inclusion of the youth that comprises up to 48 percent of the population. Nationally, 52 percent of the youth are unemployed and unemployment is more prevalent among those in rural areas.

2.3 Institutional framework to promote MSME development

MSMEs are recognised as cornerstone for economic development with the potential to enhance the industrialisation process if their entrepreneurial spirit is nurtured. However, there are many factors identified that hamper the entrepreneurial spirit which include: marketing; accounting; finance; limitations in training and development; business climate; are among other managerial constraints for MSME businesses to thrive.

To address the challenges faced by MSMEs in Eswatini, the government, non-governmental institutions, financial institutions and other international organisations have made attempts to provide support to MSMEs. The main agencies that are

active in developing MSMEs in the country include: The MSME Unit; the Eswatini Investment Promotion Authority (SIPA); SEDCO, The Eswatini Development Finance Corporation (FINCORP); and The Federation of Eswatini Employers and Chamber of Commerce (FSE & CC).

2.3.1 Small and Medium Enterprise Unit (SME Unit)

The MSME Unit was created within the MCIT. Its main goal is to advise government on policy issues and stimulate indigenous enterprises through creating an enabling environment for business. An enabling environment in this case is defined as a trading environment in which a business can operate while the government minimises licensing and other regulations. The MSME Unit has the overall responsibility of coordinating the implementation of the SMME policy.

2.3.2 The Eswatini Investment Promotion Authority (SIPA)

SIPA is a public enterprise which has a mandate to: “Promote, coordinate and facilitate foreign direct and local investment in Eswatini, with the goal of creating the wealth necessary to enhance the Social and Economic Development of the Kingdom and its people.” Services offered by SIPA include: coordinating investment activities; providing information on business opportunities; the cost of doing business and the economic climate in Eswatini.

2.3.3 The Small Enterprise Development Company (SEDCO)

SEDCO is a public company that was created by the government with its main mandate to support and promote the small business sector in Eswatini. SEDCO is tasked with facilitating the creation of a supportive and cooperative environment that will enhance the performance of MSMEs. As part of its goal to create a vibrant MSME sector, SEDCO offers a wide variety of services which are tailor made to promote the entrepreneurial talent of small and medium businesses. The main service offered is the provision of affordable premises in all the cities and towns in the country.

2.3.4 Eswatini Development Finance Corporation (FINCORP)

FINCORP was launched by His Majesty King Mswati III with the aim of empowering the nation economically. FINCORP provides financial resources to combat the challenge of lack of access to finance. The major objectives of FINCORP include: providing funding; promoting the development of Swazi-owned enterprises by providing business advisory services; and supporting the provision of, training, monitoring and development of other products and services for MSMEs.

2.3.5 The Federation of Eswatini Employers and Chamber of Commerce (FSE & CC)

The FSE & CC is Eswatini's apex private sector body that represents local businesses in the country. It serves as an umbrella body for all businesses in Eswatini and its membership cuts across all sectors of the economy. Its mandate is to work with government in ensuring that a conducive environment in Eswatini is created and enhanced for business to thrive and prosper. This is achieved by forging a working relationship with government and key policy makers, collaborating with key stakeholders and by promoting social dialogue and partnership.

3. MSME OWNER PROFILE

The profile of MSME owners was analysed based on age, level of education, gender and location. This is useful in understanding entrepreneurial concentration across these categories.

Figure 1: Defining MSMEs

Definition of MSMEs

According to Eswatini SMME policy (2009), MSMEs are defined based on the total number of employees, total investment and sales turnover. Accordingly, businesses that employ at most 50 workers, generate annualised turnover of up to E5 million or with a capital base of up to E8 million.

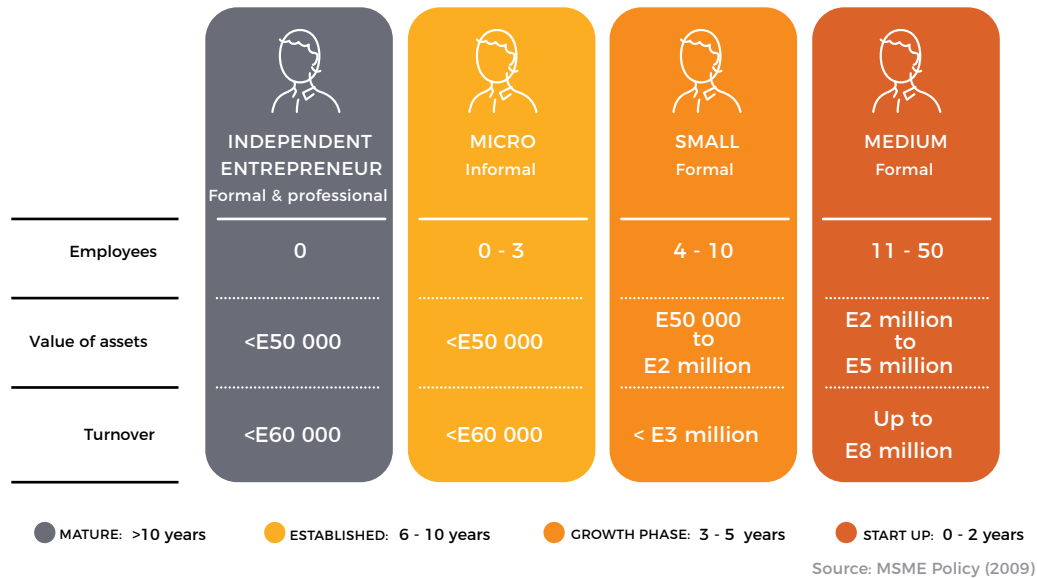
Businesses within the MSME sector are classified using the same set of criteria. Accordingly, micro enterprises are those engaging up to three people, or employing capital under E50, 000.00 and a turnover of up to E60, 000.00. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised activities engaging between 4 to 10 people or with capital investment from E50,000.00 to E2 million, and turnover of up to E3 million. Medium enterprises employ between 11 to 50 people or use capital investment from E2 million to E5 million and a turnover of over E3 million to E8 million.

As well, there is classification for micro-enterprises that is formal and professional. This can be found in the areas such as consultancy, sales and marketing, accountancy and law. Individuals in these and other fields may operate as self-employed entrepreneurs.

Where the definition is in conflict, the number of employees should be used as the governing criteria. For example, a business with a turnover of E3.5 million but employing 7 people will be defined a small rather than medium business. In addition, owner-operated independent MSME is considered as substantially different from those of the MSME subsidiary firm of a large organization.

Due to the low accuracy of turnover and value of assets, FinScope only uses number of employees to determine business size. These classifications are used throughout the report.

Defining MSMEs for this survey
By the number of employees and annual turnover

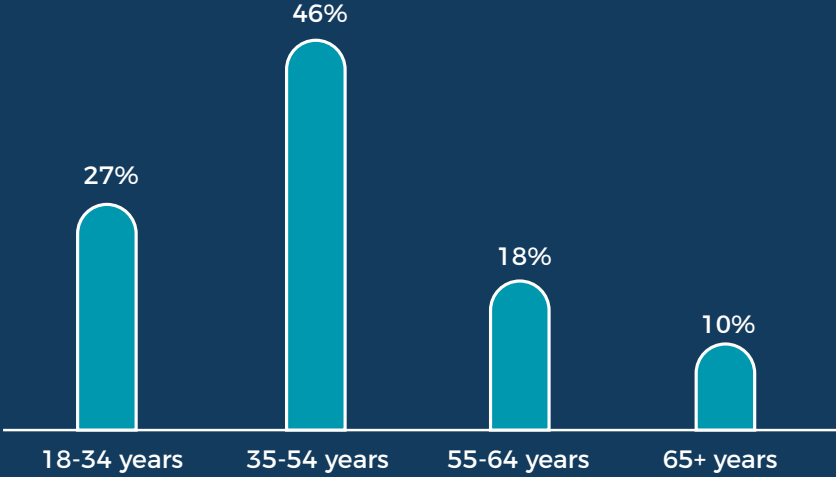


3.1 Age

Analysis of MSME owners by age allows us to understand the distribution of MSME ownership across age groups and hence providing insight within which particular age category ownership is concentrated. As shown in Figure 2, almost half the MSME owners are adults aged between 35 to 54 years. Participation of the youth (age between 18 to 34 years) is phenomenal with a quarter of the MSMEs owned by this age group. Cumulatively, about three quarters of the MSMEs are owned by Swazis aged between 18 and 54 years and MSME ownership decreases as one moves to higher age categories. This shows the potential of the MSME sector in alleviating youth unemployment problem and its contribution to the government’s effort of promoting economic empowerment of the youth in the country.

It also implies that most MSME owners are young entrepreneurs with limited business experience which provides opportunity to the government to expand business support services to MSME owners. This also has an implication on the financial strength of the enterprises. Most MSME owners use their own money to finance start-up and growth and young owners that are at early stage of their life cycle may not have enough resources to invest in their businesses and this places more burden on the government to introduce innovative financing schemes for the MSMEs. Finance, business type (formal or informal), growth and success are different attributes of any business. The age of the business owner seems to play a significant role on the extent of each of these attributes.

Figure 2: Age of MSME owners (% of MSME owners)

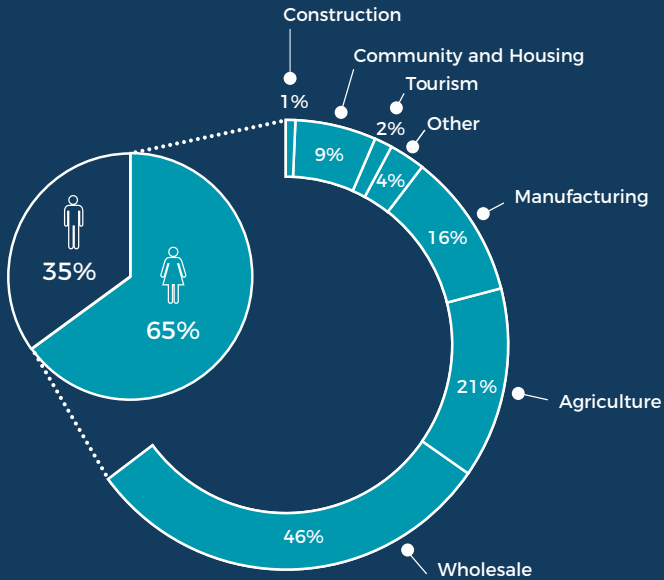


Source: FinScope MSME Swaziland 2017 Survey

3.2 Gender

Comparison of MSME ownership across gender shows that 65 percent of the Swazi MSME owners are females while 35 percent are males (see Figure 2). Given that the gender split of the adult population in Eswatini is 55 percent females and 45 percent males according to FinScope Eswatini Consumer 2014 Survey, females have a higher propensity to own a small business. However, business size comparison by gender shows that nearly 60 percent of females own micro-enterprises compared to 40 percent of the males. This implies that female entrepreneurs need to be accorded better attention so they are able to grow their businesses. A contributing reason to the higher proportion of female business owners in the micro- level enterprises is inherent in the bulk of women having lower educational attainments and hence lower formal employment prospects. Women would then engage in self-employment as a means of survival and rarely entrepreneurial motivation.

Figure 3: Gender of MSME owners (% of MSME owners)



Source: FinScope MSME Swaziland 2017 Survey

Looking at gender amongst Swazi business owners, female business owners are more likely to be involved in wholesale (46 percent), agriculture/farming (21 percent) and manufacturing (16 percent). Male business owners are more spread across the sectors in agriculture/farming and wholesale at 27 percent and 26 percent respectively, and others in community and household sector (24 percent). The study shows that more females are involved in the manufacturing sector which has direct linkages to the real economy. The construction industry in the MSME sector is male dominated.

The ownership of independent businesses is largely by female (74%) compared to 26% by males. As the business size grows, the proportion of females lowers with only 40% of micro businesses and 33% of small businesses owned by women. This suggests that women are likely to be the owners of less mature, under-developed businesses. Medium enterprises are largely owned by males (61%) which indicates that the main drivers of the MSME sector in Eswatini largely skew towards male owners. Specific interventions are required to address this gender gap and to promote female owned enterprises to graduate to small and medium enterprises.

3.3 Level of Education

Although people can exhibit a natural inclination towards entrepreneurship, running a successful business in the current technologically advanced age requires possession of business management skills acquired through a formal education or through specialised trainings. Educated entrepreneurs are better positioned to take advantage of opportunities and circumvent threats. Studies report a significant and substantial effect of an added year of education of a business owner on business profitability.

As shown in Figure 3, 94 percent of MSME owners in Eswatini have at least a primary education. About 60 percent of the MSME owners have completed secondary education while the propensity to own a small business is low among those with vocational education or a university degree.

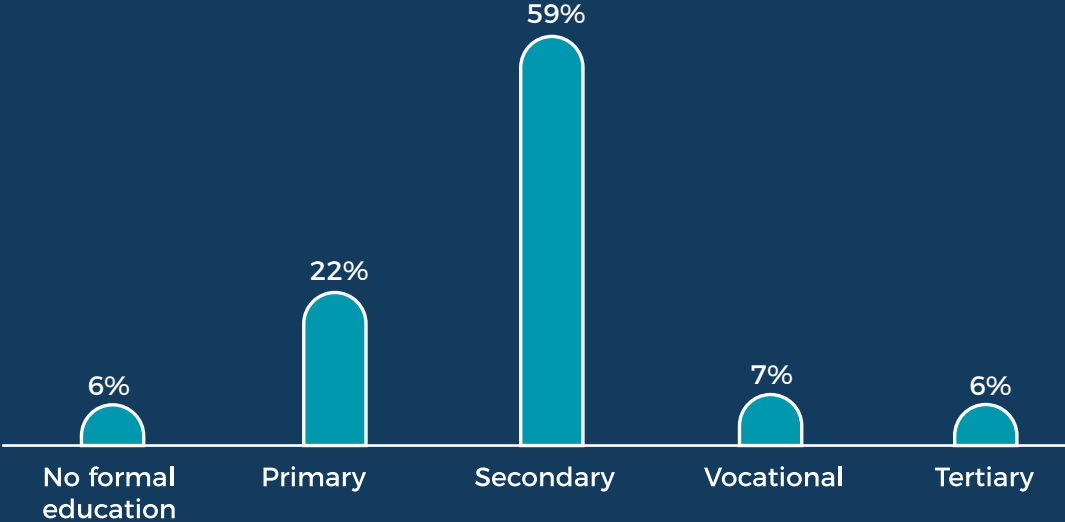
Lower entrepreneurial inclination by those with higher level of education might be driven by availability of employment opportunity for these group and a concomitant loss of interest in running own business due to contentment with the employment income. In contrast, those with a lower level of education might be compelled to start a business as the only way of generating income. Such a trend would lead to MSME ownership to be dominated by entrepreneurs with lower level of education who often lack the aspiration to grow their business by introducing new products and services. This calls for provision of business support services to MSME owners with no formal education or primary education to enable them to acquire the skills necessary in running a successful business.

3.4 Motivation for starting a business

Research has reported that entrepreneurial orientation has an important role in small business survival growth. It has been reported that small businesses that are established by those with entrepreneurial intention are better than those that are established by people who just wanted to make their living by running a small business. The study therefore analysed motivation of small business owners in starting their business. Reasons for starting a business are classified into three categories: Entrepreneurial, Desperate and others.

Those that were considered as entrepreneurial are individuals who started a business because they saw an opportunity, interested in a particular product or wanted to use their skills. Those that started a business because they lost their job or unable to find employment are regarded as desperate. These individuals are different from the first group because they were compelled into running a small

Figure 4: Level of education of MSME owners (%)

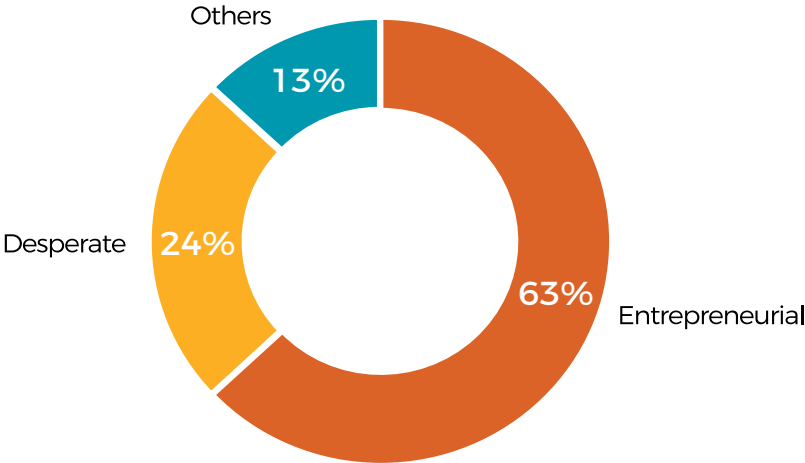


Source: FinScope MSME Swaziland 2017 Survey

business because of exclusion from the job market. The rest of the small business owners are those that inherited their business from family or started their business either to make more money, wanted to be their own boss or due to pressure from family.

As shown in Figure 4, 63 percent of the MSME owners had entrepreneurial intention when they started a small business while 24 percent started a business out of desperation. The finding that 63 percent of the MSME owners have entrepreneurial orientation is encouraging because such owners are more likely to exert effort to grow their business.

Figure 5: Reasons for starting a small business (% of MSME owners)

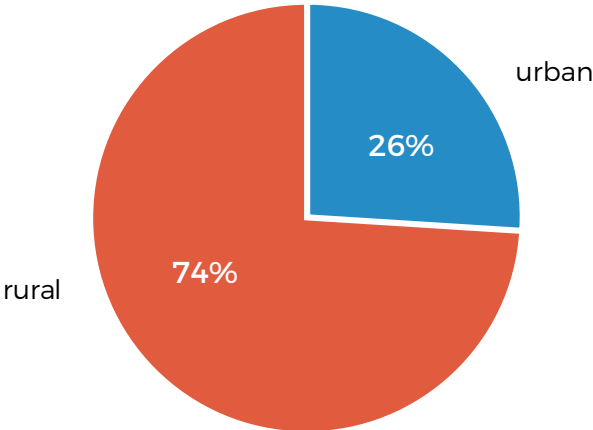


Source: FinScope MSME Swaziland 2017 Survey

3.5 Location (Urban/Rural and Province)

MSME development might be affected by geographic location due to difference in the availability of infrastructural facilities and markets. Businesses tend to concentrate in urban areas where they can access market for their products and services. As shown in Figure 5, the majority of MSME owners are based in rural areas. Compared to a rural urban split of 67 percent and 33 percent respectively (according to FinScope Eswatini Consumer 2014 survey) for the whole adult population, one can see that MSMEs are concentrated in the rural areas. A further look at sectoral distribution of MSMEs shows that most MSME in the agricultural and manufacturing sector are rural based.

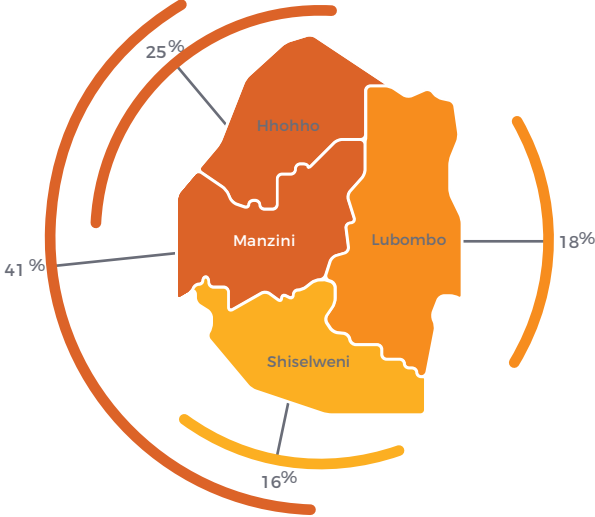
Figure 6: Location of MSME owners (%)



Source: FinScope MSME Swaziland 2017 Survey

Figure 6 shows the distribution of MSME owners across regions in Eswatini. MSME owners are concentrated in two regions, namely Hhohho and Manzini that inhabit more than two-third of the MSMEs in the country. The remaining one-third of MSME owners are in Shiselweni and Lubombo. Manzini alone hosts 41 percent of the MSMEs and the concentration in the city is the highest considering the proportion of adult population living in it. The city inhabits 35 percent of the adult population yet hosts 41 percent of MSME owners. This speaks true to the fact that the economic hub Manzini and capital Mbabane are in the regions of Manzini and Hhohho respectively.

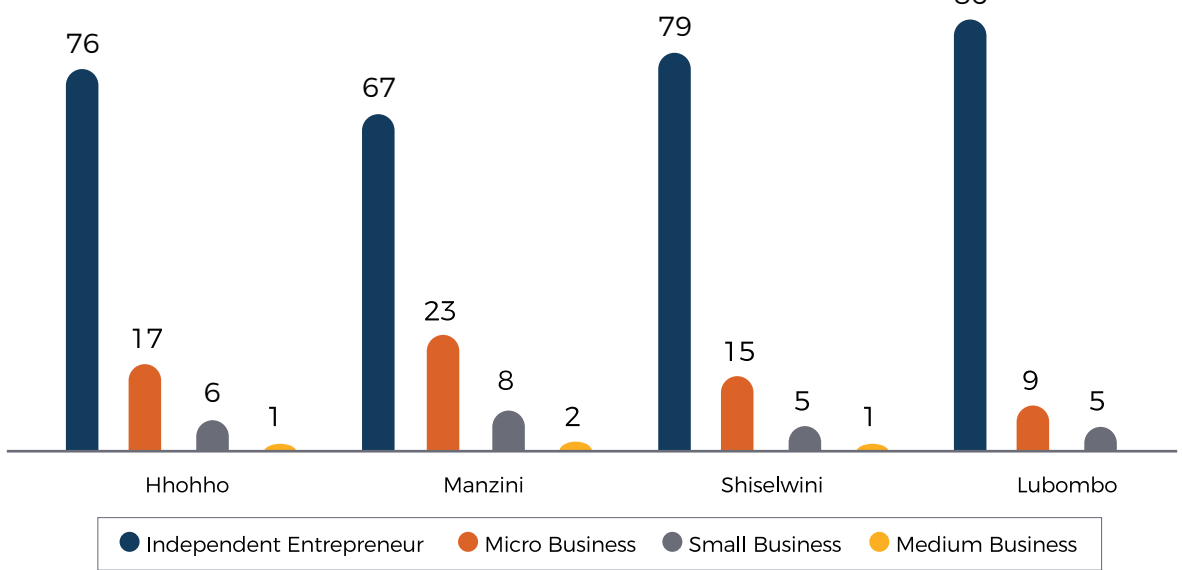
Figure 7: Regional distribution of MSME owners (%)



Source: FinScope MSME Swaziland 2017 Survey

A closer look at the regional distribution of the businesses shows that while Manzini hosts the most number of micro and small businesses, most of the businesses in Lubombo are independent entrepreneurs.

Figure 8: Business size by region (%)



Source: FinScope MSME Swaziland 2017 Survey

3.6 Personal income and business turnover

Although income and turnover are very subjective and prone to understatement, they provide indicative performance of the business. The income of the business owner, assumed to be derived mainly from the business, is a reflection of how fluid the enterprise is. Due to the large proportion of independent entrepreneurs, it is expected to find that slightly over two thirds (67 percent) of the MSME owners earn under E2,500 per month. When looking at the income spread by size of business, Table 2 shows that as a business grows from independent to medium size, the personal income of the business owner grows significantly. This is evident in that the personal income of those earning E10,0001 and above grows from 3 percent for independent entrepreneurs to 62 percent for medium business owners.

When looking at personal monthly income in relation to mean business turnover one can see the relation between small turnover resulting in low income. As businesses grow and afford to pay an additional employee(s) it implies the turnover is high enough to foot these extra expenses of wages/salaries.

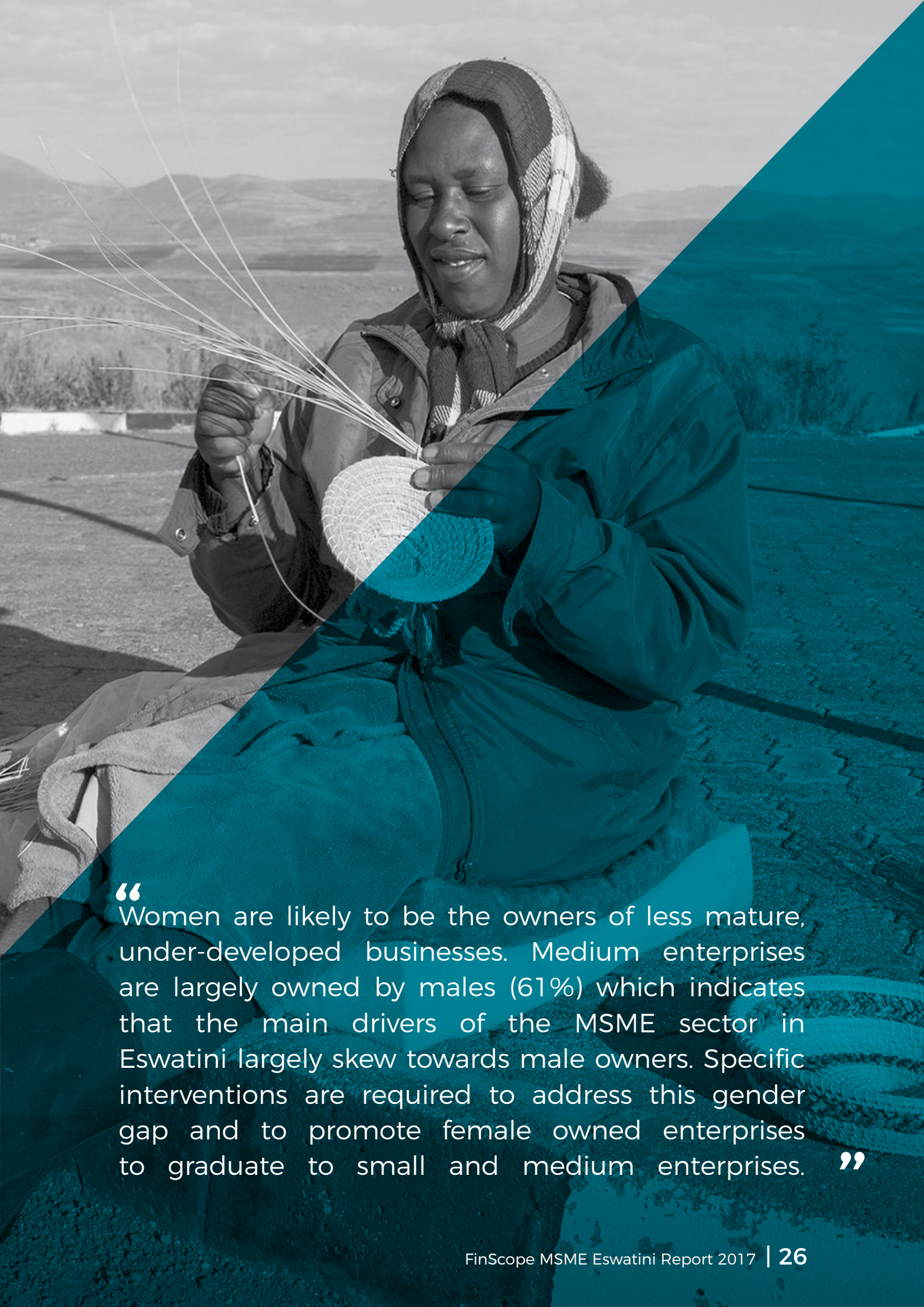
Table 2: Personal monthly income by size (%)

Personal monthly income (Emalangeni)	Total	Independent entrepreneur	Micro Business	Small Business	Medium Business
Refused / Don't know	7	4	7	10	10
No personal income	7	8	3	3	-
Less than 2,500	53	62	32	15	7
Between 2,501 - 5,000	17	16	23	21	13
Between 5,001 - 10,000	10	7	22	23	8
Between 10,001 - 25,000	4	2	10	13	38
Between 25,001 - 50,000	1	1	2	8	7
Between 50,001 - 100,000	1	-	1	4	13
Between 100,001 - 200,000	-	-	-	1	2
Between 200,001 - 500,000	-	-	-	2	2

In Table 3, the average monthly turnover is displayed per size of the business. The highest monthly turnover (average) is recorded by the small entrepreneurs being over four times that of the medium enterprises. Small enterprises have the largest proportion of businesses in the services sector (6 percent) and community and household (34 percent) which are high paying. The small businesses also have less involvement in wholesale and retail sectors which are dominated by independent entrepreneurs which score lower revenues than specialised sectors.

Table 3: Business monthly turnover (mean)

Size	Mean Monthly Turnover (E)
Independent entrepreneurs	17,502.99
Micro business	19,908.85
Small business	585,271.24
Medium business	113,467.22



“ Women are likely to be the owners of less mature, under-developed businesses. Medium enterprises are largely owned by males (61%) which indicates that the main drivers of the MSME sector in Eswatini largely skew towards male owners. Specific interventions are required to address this gender gap and to promote female owned enterprises to graduate to small and medium enterprises. ”

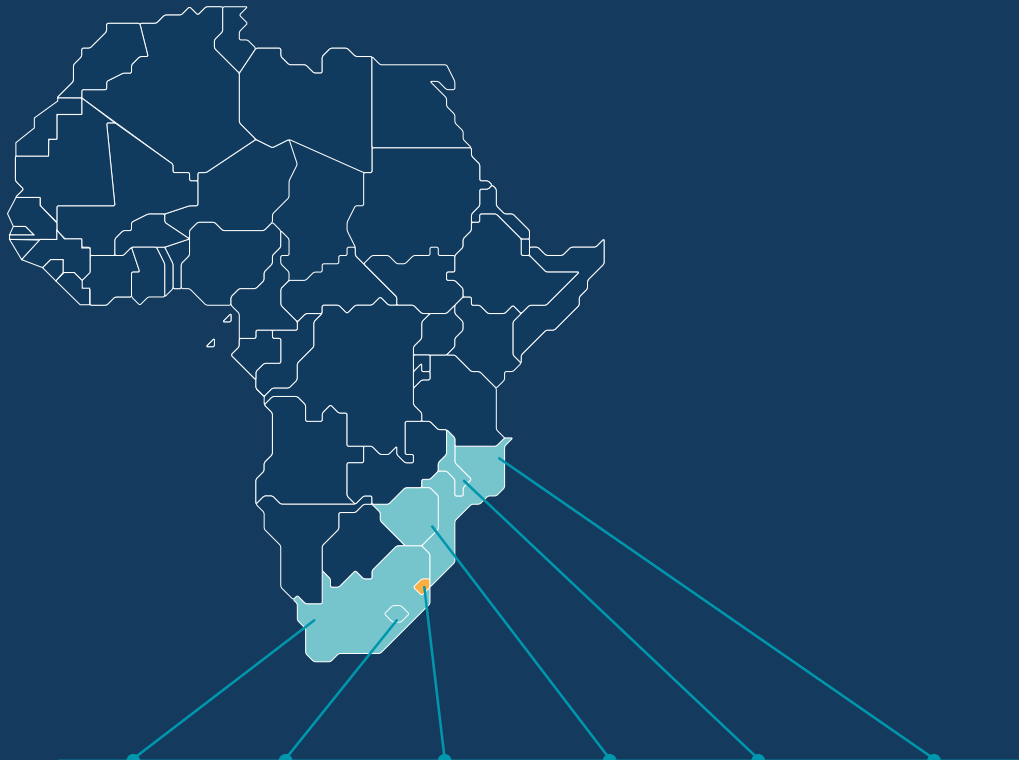
4. THE MSME SECTOR IN ESWATINI

This section presents characteristics of MSMEs by focusing on business sector, source of start-up capital, awareness and use of the support infrastructure and employment across business sectors. The relative importance of level of education on the size of a business is highlighted by comparing business size across different levels of education.

Comparison of MSME ownership in Eswatini against Malawi, Zimbabwe, Mozambique and Lesotho presented in table 4 shows that MSME ownership in Eswatini is lower than in Malawi but higher than in Lesotho. With 25 percent of MSME registered, Swazi MSMEs are relatively more formal than that of Malawi followed by Lesotho and South Africa at 18 percent and 17 percent respectively. The employment potential of Swazi MSMEs is comparable to that in Lesotho.

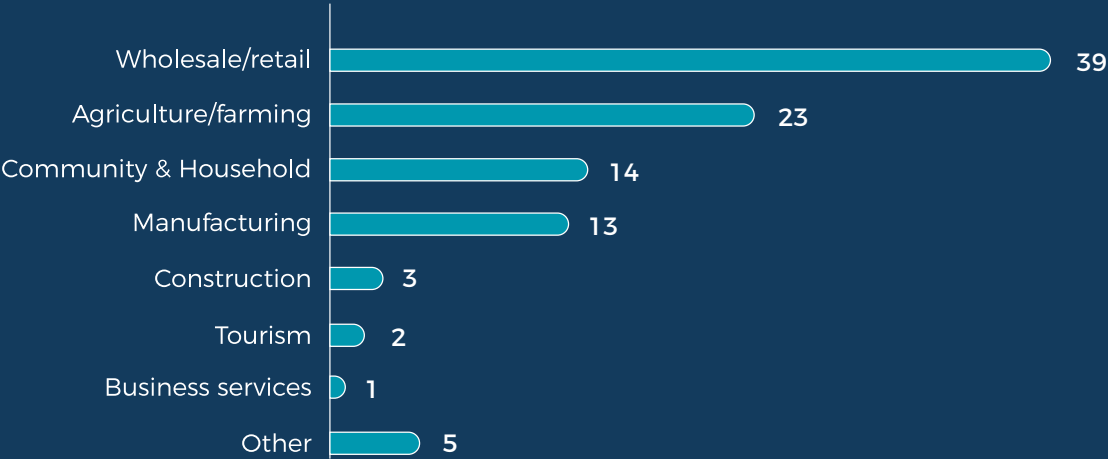
The SADC region has very similar economies, largely commodity driven, engaged in agriculture and with highly commercialised foreign owned companies and public entities. The structure of the economy is very much driven by primary and secondary sectors as discussed in chapter 2. This gives rise to informal business owners who seek to make a living through meeting a demand for basic services. The phenomenon of a highly informal MSME sectors across some of the SADC countries with an MSME study conducted is shown in Table 4 below. Zimbabwe and Mozambique have the highest proportions of their adult population that own MSMEs largely due to political-economic instability and high unemployment rates. However, their MSME sectors also contribute positively to creating employment.

Table 4: Cross country comparison of MSMEs in Eswatini vs other countries



	South Africa (2017)	Lesotho (2016)	Swaziland (2017)	Zimbabwe (2012)	Malawi (2012)	Mozambique (2012)
	18 years and older	18 years and older	18 years and older	18 years and older	18 years and older	18 years and older
Business owners	200 employees or less	49 employees or less	50 employees or less	75 employees or less	100 employees or less	100 employees or less
Estimated adult population	33,5 million	1,1 million	600 thousand	5,9 million	6,1 million	10,8 million
Estimated % of adult population that owns MSMEs	17%	7%	10%	46%	13%	42%
Number of MSME owners	5,6 million	76 thousand	59 thousand	2,8 million	760 000	4,5 million
Number of MSMEs they own	6 million	85 thousand	68 thousand	2,8 million	1 million	4,9 million
% of MSME owners with registered/licensed businesses	17%	18%	25%	15%	3%	14%
Number of employees	6 million	118 thousand	93 thousand	2,9 million	1 million	850 thousand
% of independent entrepreneurs	67%	83%	75%	71%	59%	93%
% of businesses with employees	33%	67%	25%	29%	41%	7%
Average number of employees per MSME		1.4	1.4	1	1	0.2

Figure 9: Business sector in which MSMEs operate (%)



Source: FinScope MSME Swaziland 2017 Survey

4.1 Business Sector

Development of the MSME sector is needed because the sector can boost national output besides its useful contribution to job creation. The economic role of the sector becomes more important when MSMEs operate in sectors of the economy considered strategically important. However, capital constraints and accessibility of markets may lead to concentration of small businesses in sectors of the economy that are not strategically important.

As shown in Figure 8, MSMEs operate predominantly in the wholesale or agricultural sector. The wholesales sector is where 41 percent of MSMEs operate followed by 22 percent in the agricultural sector. The fact that a little more than a tenth of MSMEs operate in the manufacturing sector means the sectors contribution to the industrialisation effort of the government is marginal. This calls for a concerted effort by the government to help MSME owners identify opportunities in the manufacturing sector and also to provide incentive packages to attract more entrepreneurs to the sector. Eswatini’s manufacturing sector as a whole is the biggest (as a % of national output) in the SADC region. This is driven largely by sugar production and is dominated by large companies. Efforts to growth this sector in the MSME oriented growth would mean policy change that allows for smaller firms to feed into the industry (processing segments) beyond the agriculture of sugar cane.

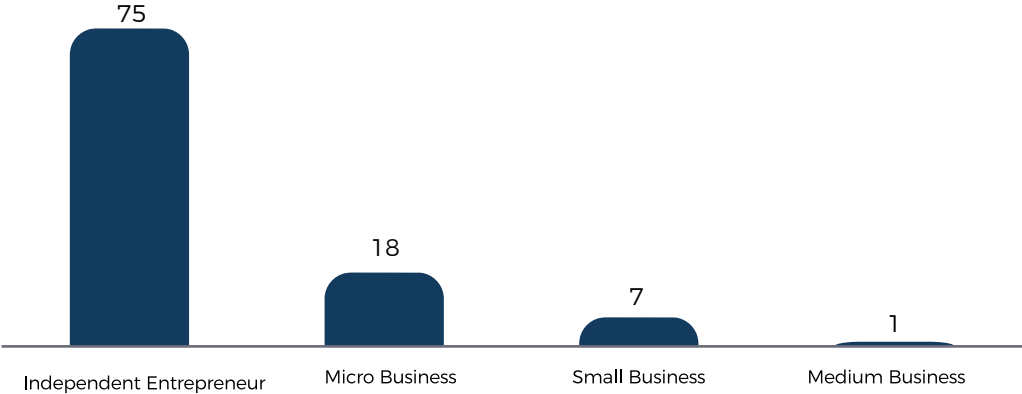
4.2 Business Size

Size of a business can be measured using different parameters such as annual turnover, total assets or number of employees. Each of the parameters has its own limitations. For instance, volatility in annual turnover may lead to a misclassification of a medium enterprise into small business when turnover falls. Perception based surveys are limited in accurate reporting of income or turnover weakened by human bias and memory inaccuracy. Sectoral differences in capital intensity of operations makes using total assets as a basis of classifying businesses by size problematic. Businesses that use capital intensive processes will be classified into higher size categories while those that use less capital-intensive processes are likely to be classified into lower size categories. A similar limitation applies when using number of employees as a basis of size classification which leads to small businesses that use labour intensive processes into higher size classes while those with less labour-intensive processes into lower size classes.

In this report, the study classified businesses into different size categories following Eswatini SMME policy that prescribes usage of a set of criteria that includes number of employees while annual turnover and asset value were not used to the high number of business owners that chose not to disclose their income and bias mentioned earlier. Four categories were created where the first category consists of independent entrepreneurs where the owner is the only employee. The second category comprises micro enterprises that employ between 0 to 3 workers while the third category consists of businesses that employ between 4 to 10 workers and are classified as small businesses. The fourth category consists of enterprises that employ between 11 and 50 workers and classified as medium enterprises.

As show in Figure 9, more than half the MSMEs have between 0 to 3 employees and 44 percent are small businesses. In general, micro and small enterprises account for 93 percent of the MSME sector. The fact that most MSMEs are either micro or small implies limited employment potential of the MSME sector in the country.

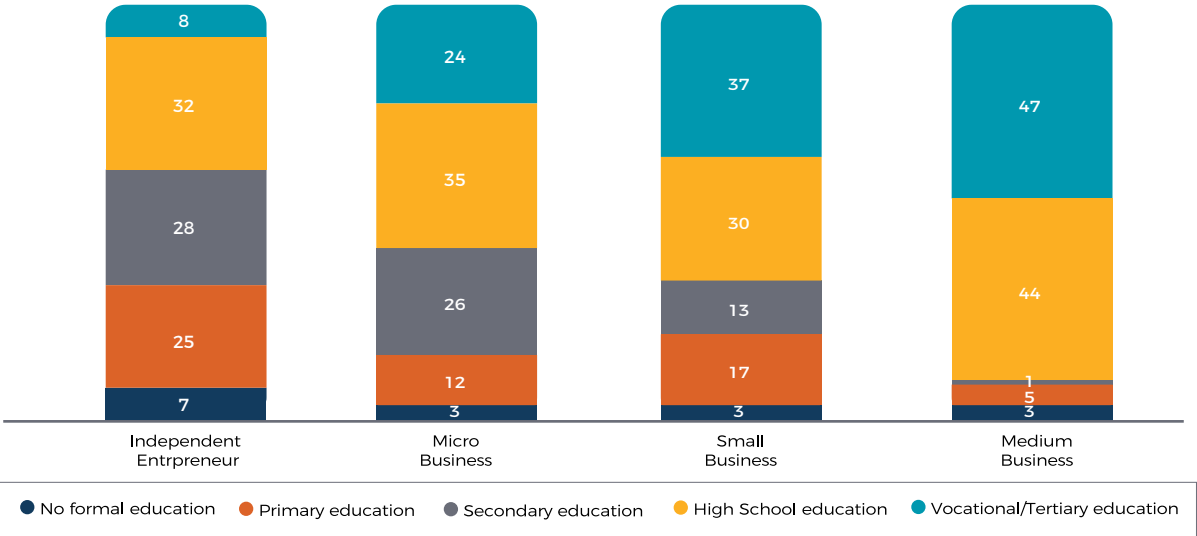
Figure 10: Business size (%)



Source: FinScope MSME Swaziland 2017 Survey

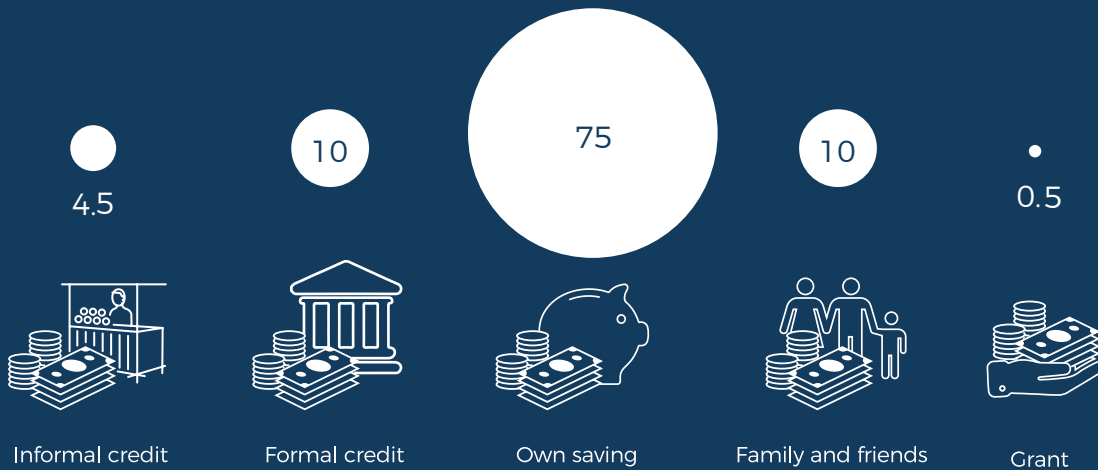
Further analysis of business size by owner’s level of education provides interesting insights. As shown in Figure 10, ownership of a micro enterprise decreases as one moves up in the education ladder from those who do not have formal education to those with tertiary education. The size of the MSME increases with the level of education. Interestingly, both small and medium enterprises are more likely to be owned by those with tertiary education. The most prominent educational attainment for most MSME owners is secondary schooling.

Figure 11: Business size by level of education (%)



Source: FinScope MSME Eswatini 2017 Survey

Figure 12: Source of start-up capital (%)



Source: FinScope MSME Swaziland 2017 Survey

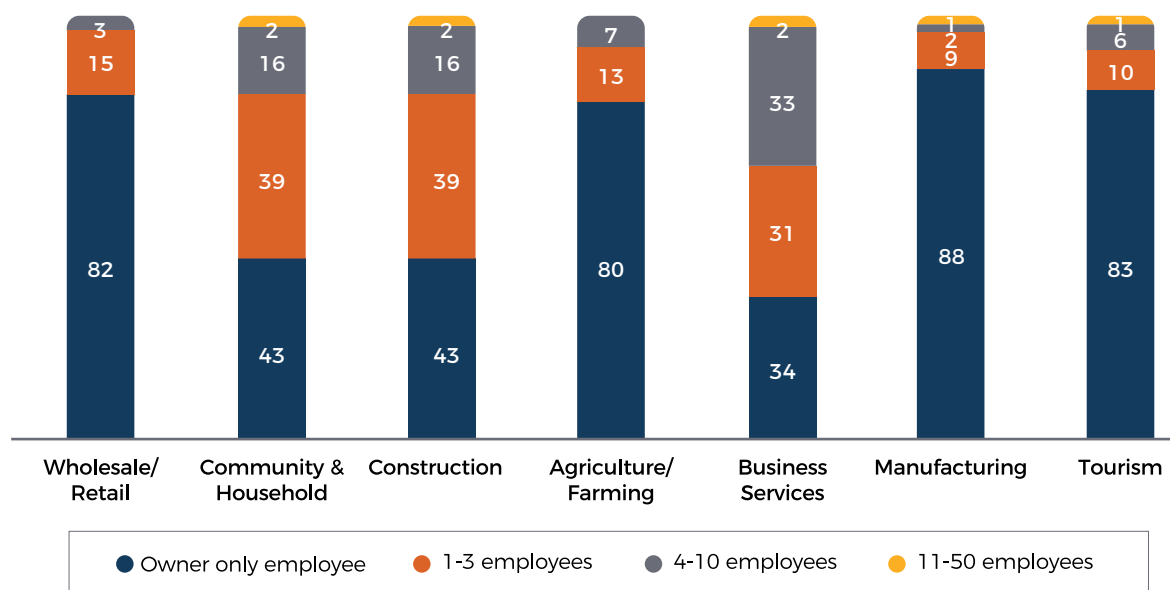
4.3 Sources of start-up capital

Lack of finance has been cited as the major obstacle for starting a new business and the constraint is stronger in developing than developed countries because of underdeveloped financial sector. Figure 11 shows that 90 percent of MSME owners start a new business using money from their own saving, family and friends, informal credit or grants. Only 10 percent of them manage to access formal credit from financial institutions. A high degree of reliance on own saving and money from family and friends or otherwise from informal lenders poses a significant challenge to the MSME sector. This is because it takes time for individuals to accumulate saving big enough to finance a start-up. It can also be a cause of proliferation of micro-enterprises that are started with a small amount of seed money and remain unchanged for a considerable period. This may be explained by the observance of a majority of MSME owners citing that source of funds are a major challenge in start-up, growth and operations. At the same time, one observation states the same saying they do not need to borrow money as a barrier to credit. This conflicting observation requires further understanding on the perception of sourcing funds and the role of credit in business.

4.4 Employment trends by sector

Employment potential may differ across sectors due to difference in labour intensity of businesses in each sector. As shown in Figure 12, MSMEs in the wholesale, manufacturing and agriculture sector are dominated by independent enterprises where the owner is the only employee of the business. Businesses that employ between 4 and 10 workers account for 15, 9 and 13 percent in the wholesale, manufacturing and agriculture sector respectively. The service sector provides relatively better employment opportunity with 64 percent of them employing between 1 - 10 employees. Over half the MSMEs in the construction and community and household sectors employ between 1 and 10 workers and 2 percent employ between 11 and 50 workers in both sectors. This implies that growth in the service sector as well as construction and community and household would create more jobs than in the other sectors.

Figure 13: Employment trends by sector (%)



Source: FinScope MSME Eswatini 2017 Survey

In general, analysis of characteristics of MSME shows that most small business operate either in the wholesale or agricultural sector. A very small percentage of MSMEs operate in the manufacturing sector. A large part of the manufacturing MSMEs are involved in manufacturing school clothes and other attire. Hence, it is not surprising that the manufacturing sector within the MSME has low employment prospects which would be very different to the large-scale manufacturing sector

dominated by sugar production. Despite the service sector providing the most job opportunities, relatively few MSMEs operate in the sector. Promotion of the services sector shows significant growth prospects for the MSME sector. With 95 percent of MSMEs employing at most 3 workers, the job creating capacity of the MSMEs is marginal. Therefore, government policies should target MSMEs with growth potential and with higher employment capacity instead of casting a wider net on the whole MSME sector.

4.5 Business Development Measures (BDM)

Business Development Measure (BDM) is segmentation tool used to classify small business based on a wide range of criterion that includes formality, employment capacity, access to infrastructure, usage of formal financial services among others. BDM is meant to create significant differentiation amongst businesses outside the 'normal' scope creating ratings that aid in prioritizing interventions/support. It also encourages innovative approaches to providing access to finance while highlighting areas businesses need to develop in order to fare better.

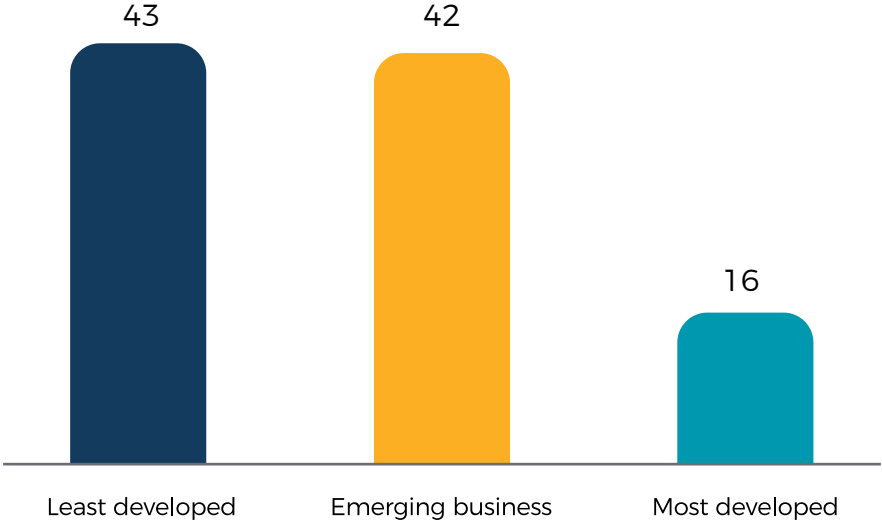
As shown in table 3, three segments were developed and the extent of development varies across the three categories. Least developed businesses have the least access to infrastructure and more likely to have the owner as the only employee while most developed businesses are formal entities with access to infrastructure and also likely to employ more than three workers.

Table 5: Segment of Business Development Measures

Segment	Characteristics
Least developed	Most likely: <ul style="list-style-type: none">• Not be licenced, not registered, not paying taxes• Not using electricity, low bank account penetration, low cellphone ownership• Not saving, not keep records,• Likely not to have employees on average
Emerging business	Most likely: <ul style="list-style-type: none">• Focus on repeat business• Have means of transport, have cellphone/phone• Aware of where to get business advice• Have 1 employee on average
Most developed	Most likely to: <ul style="list-style-type: none">• Pay overtime, registered/licenced• Have bank account,• Have toilet facilities, know how to market a business• Have on average 3 employees on average

As shown in Figure 13, more than a third of MSMEs are least developed and the same proportion of MSME are emerging. Only 16 percent of the MSMEs have achieved a higher level of development suggesting that developing the MSME sector requires expanding access to infrastructure and provision of business development services including licensing, marketing and financial management among others.

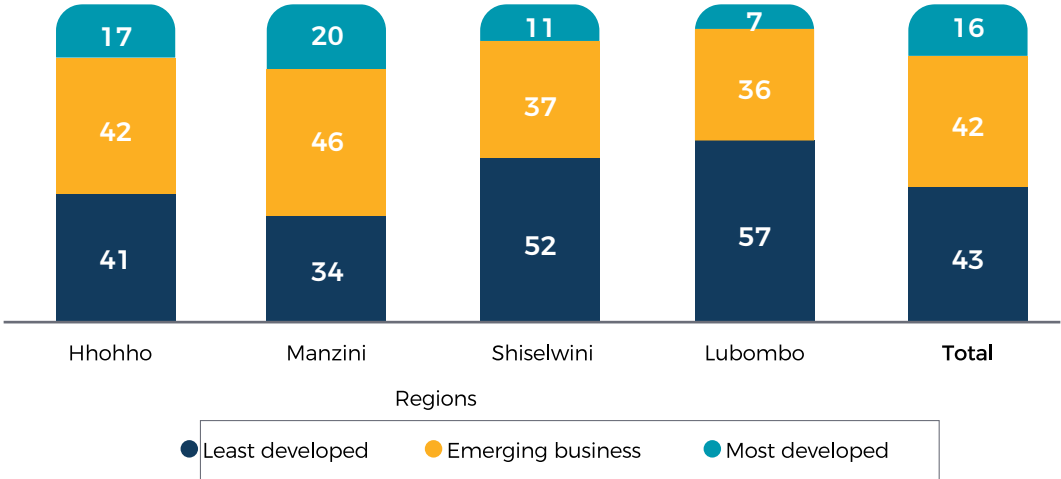
Figure 14: Business Development in Eswatini (%)



Source: FinScope MSME Swaziland 2017 Survey

As shown in figure 14, regional comparison of business development shows that most developed MSME are concentrated in Manzini and Hhohho. Shiselweni and Lubombo host relatively smaller proportion of developed MSMEs. The urban rural comparison shows that MSMEs in urban areas are relatively more developed than those in rural areas which might be driven by higher access to infrastructure in urban areas than the rural areas.

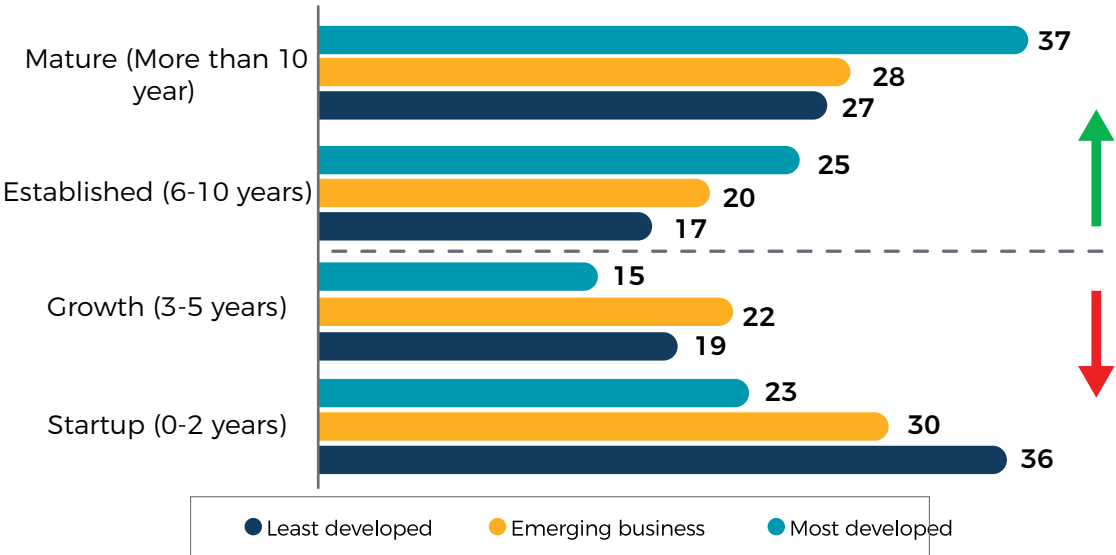
Figure 15: BDM by region (%)



Source: FinScope MSME Swaziland 2017 Survey

Interesting insights are gained by comparing business development across MSME age categories. One can easily notice from figure 15, that businesses develop as they grow older. It might also be due to weathering away of more undeveloped MSMEs and survival of more developed ones as one moves along the maturity ladder. Experience may play an important contribution to development. More experienced businesses are likely to be sustainable and have gained economies of scale and well networked.

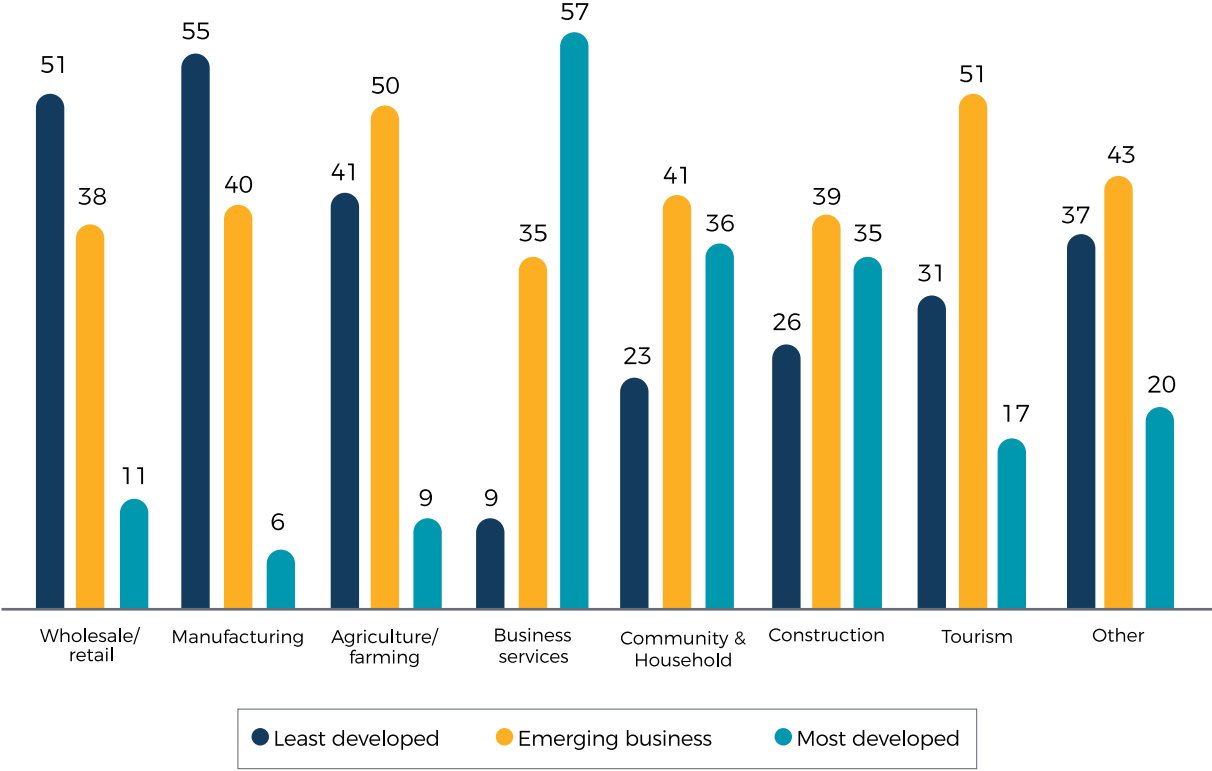
Figure 16: BDM distribution by age (%)



Source: FinScope MSME Swaziland 2017 Survey

Analysis of business development across sectors (figure 16) shows that most developed businesses concentrate in the business service sector and to a lesser extent in the community & household as well as construction sectors. Business development is the lowest in the agriculture and manufacturing sectors. The manufacturing sector is where there is a high concentration of least developed businesses.

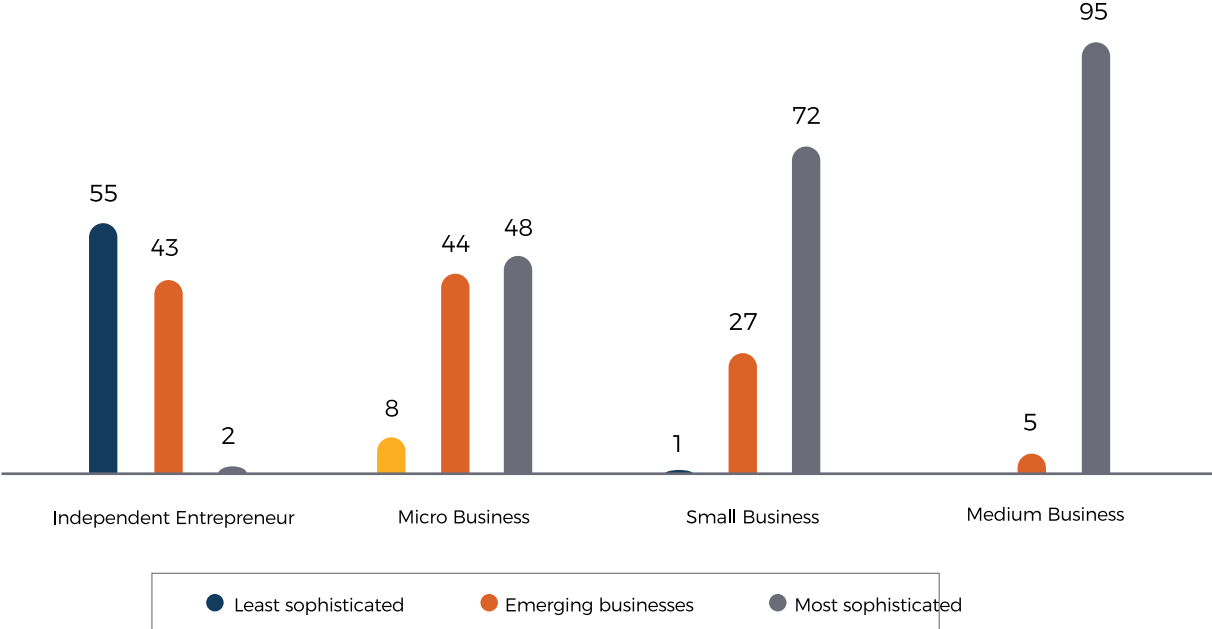
Figure 17: BDM by sector (%)



Source: FinScope MSME Swaziland 2017 Survey

A marked difference in the extent of business development is observed across difference size categories. As shown in figure 17, the proportion of most developed MSMEs increases as one moves to the next larger business category. While larger proportion most small and medium enterprises are most developed, larger proportion of independent and micro enterprises are either least developed or emerging.

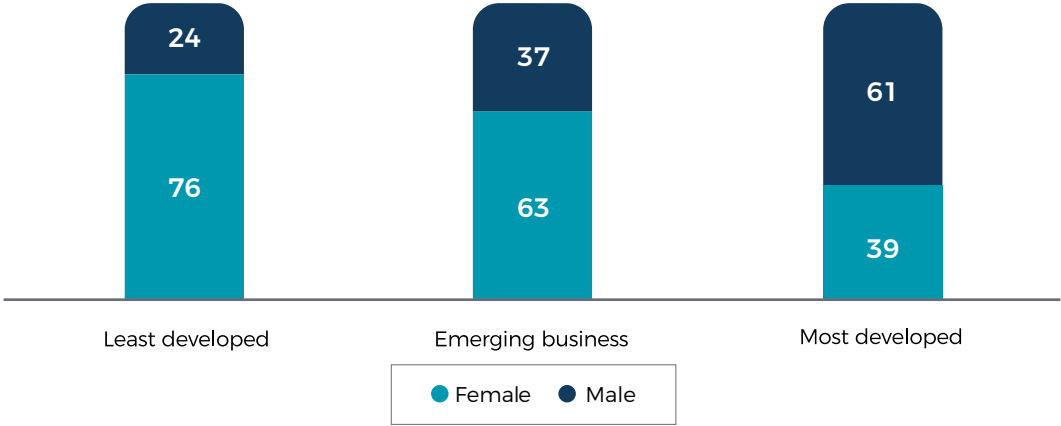
Figure 18: BDM by business size (%)



Source: FinScope MSME Swaziland 2017 Survey

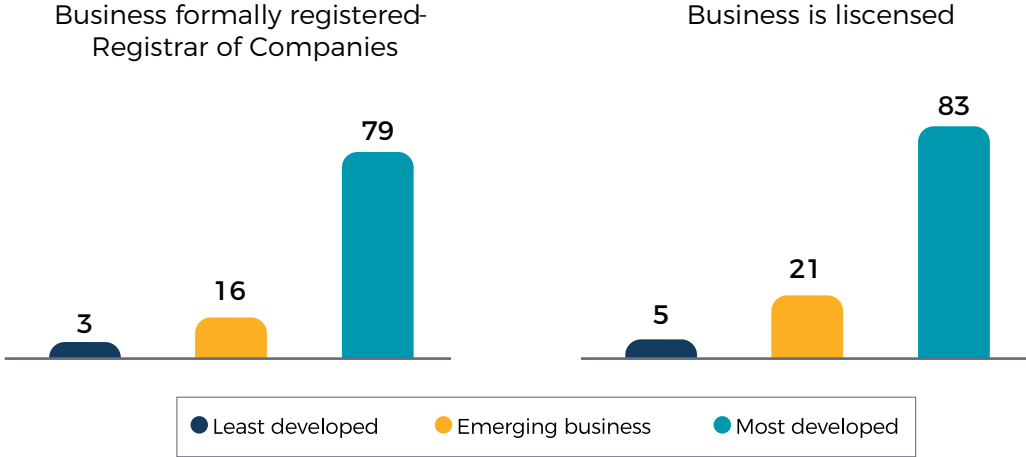
Business development shows a gender bias. As shown in figure 18, while males are more likely to own most developed MSMEs, females are more likely to own least developed MSMEs. For a majority of least developed MSME owners, the business is the only source of income while relatively lower proportion of owners of most developed MSMEs rely on MSMEs as the only source of income. If policies aimed at narrowing the gender gap in the sector among developed businesses, they effectively need to identify the underlying factors between the gender groups. These are shown in this study and suggest that the demographic factors of education and skills have an influence on sector and growth differences. However, more females are involved in the manufacturing sector but looking at the BDM, it shows that this sector only has 6 per cent of businesses that are developed. Innate in the background of the types of businesses owned by the males and females, interventions to key sectors such as manufacturing should focus on women centric skills development and allowing female oriented policies to improve the level of development of their businesses.

Figure 19: BDM by gender (%)



Formality differs across the three segments and as shown in figure 19, business licensing and registration is high among most developed businesses and low among least developed and emerging businesses.

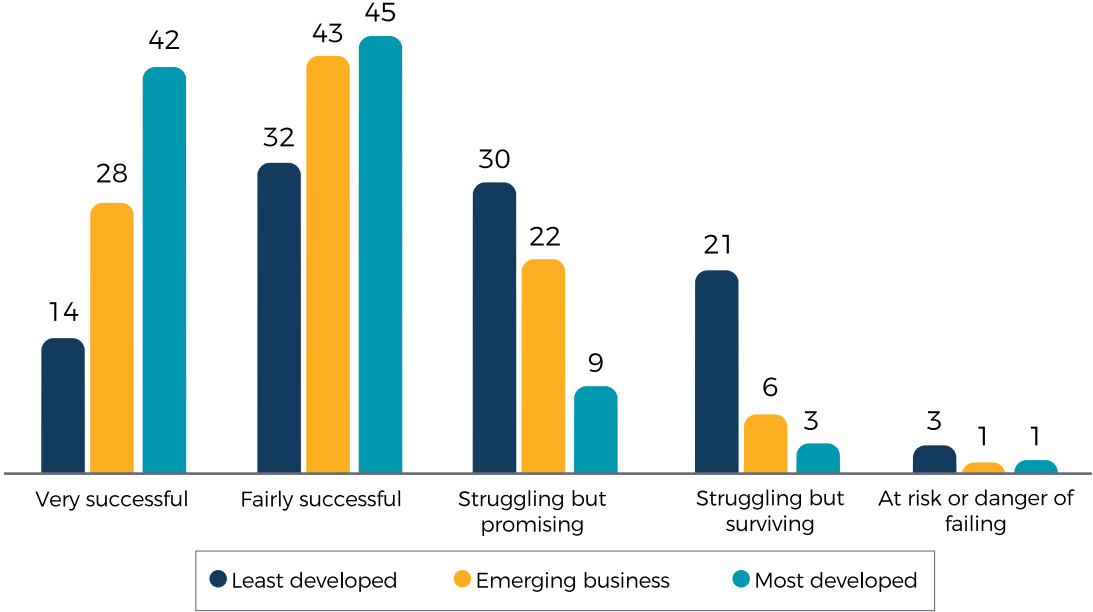
Figure 20: Business licensing and registration (%)



Source: FinScope MSME Swaziland 2017 Survey

One can notice some correlation between level of business development and owner’s perception of performance. As shown in figure 20, owners of most developed businesses report that their business is either very successful or fairly successful while most owners of least developed businesses report that their businesses are either struggling or at risk of failing.

Figure 21: Owner’s perception of business performance across BDM categories (%)



Source: FinScope MSME Swaziland 2017 Survey

4.6 Awareness and usage of business support infrastructure

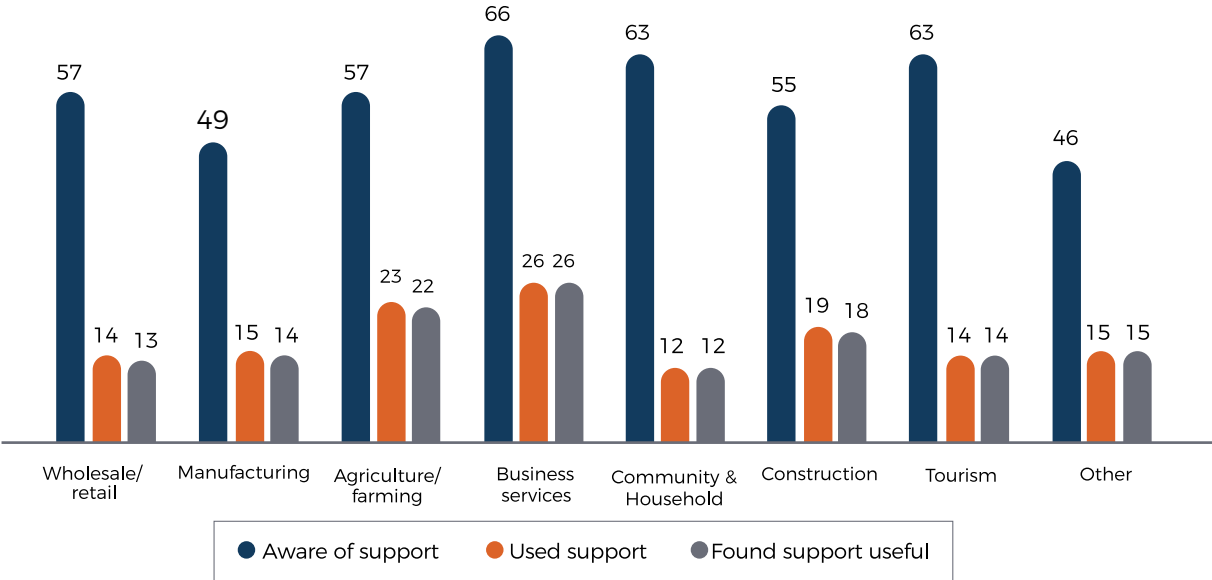
MSMEs may fail due to lack of key skills needed to successfully run a business. This is over and above those businesses that become obsolete in their value offering or simply bad investments. Support to the sector provided to MSMEs is therefore believed to alleviate this problem and help firms in the sector to survive and grow. The Government in Eswatini has built MSME support infrastructure where different public institutions are involved in the provision of business support to the MSME sector.

The above institutions provide important support services including financial management, human resource management and marketing management.

The benefit acquired from the support infrastructure in the country depends to a large extent on awareness about existence of such a facility and usage. Therefore, the report explored the extent of awareness of MSME owners of availability of the support infrastructure and its usage. It also explored MSME owner’s perception on the usefulness of the support service. As shown in Figure 21, just over half the MSME owners are aware of the existence of support infrastructure. Disappointingly, a fraction of those that are aware actually use the service. Encouragingly, almost all

(95% and above) of the MSME owners that used the support facility found it useful. Comparison of awareness and use as well as usefulness of the support service across sectors differs. It shows that while awareness is high among MSMEs owners in the service sector, usage is high among MSMEs in the agricultural sector. Usage of support infrastructure is low among MSMEs in the wholesale and service sector. The analysis suggests that increasing awareness about the support infrastructure and encouraging MSME owners to use the services is likely to benefit the MSME sector in the country. This may have a spill over with formalisation.

Figure 22: Awareness and usage of business support infrastructure (%)



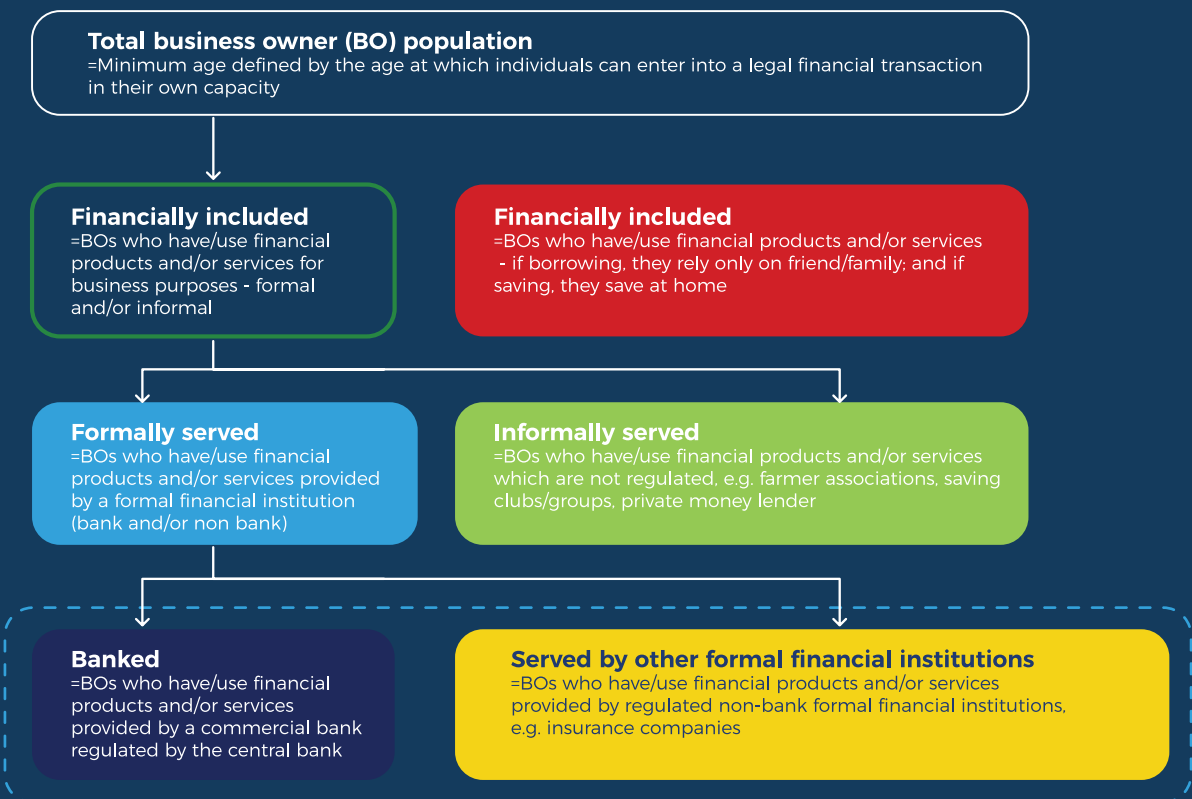
Source: FinScope MSME Swaziland 2017 Survey

5. FINANCIAL INCLUSION OF MSMES

Access to finance allows MSME owners to manage their resources effectively. For instance, an MSME owner with a bank account can receive payments for goods delivered or services offered without a need to deal with cash. This is important particularly when risk of holding cash is very high due to theft and mismanagement. The following sections present access to financial service of MSME owners. The study also present access of MSME owners to mobile money service and credit.

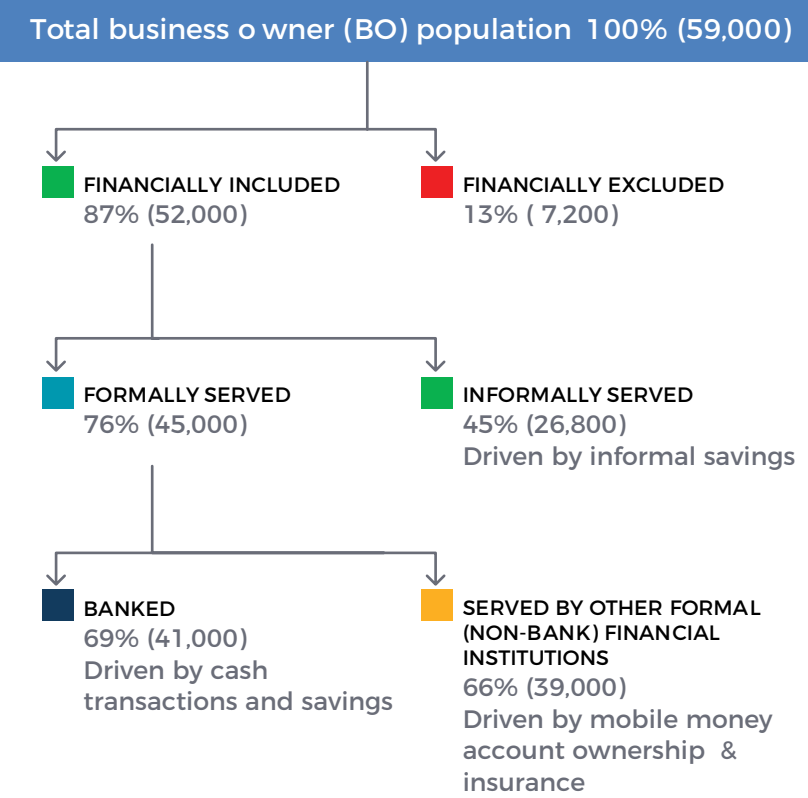
Figure 22 shows how the analysis of financial inclusion was conducted under the FinScope methodology. The framework categorises the business owner population in different segments based on the products that they have/use.

Figure 23: Financial inclusion framework



A more vivid picture can be painted by unpacking the pattern of financial inclusion among MSMEs. As shown in figure 23, banks, other formal and informal institutions play a comparable role in the provision of financial services/products to MSMEs.

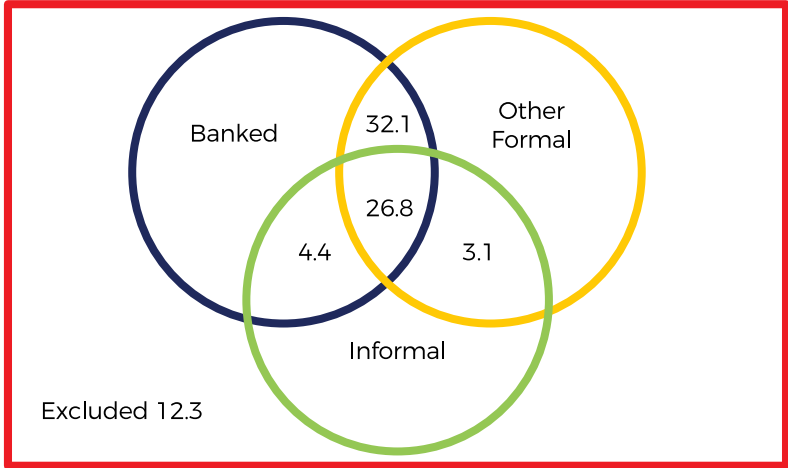
Figure 24: Financial inclusion among MSME owners



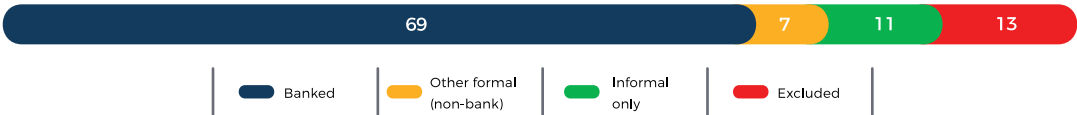
A further look at the overlaps shown in figure 24 reveals MSME owners' propensity to utilise financial services from multiple sources such as banks, other formal institutions and informal operators. This might be driven by difference in the suitability of financial services offered by each sector. For instance, those that need a quick working capital loan of a small amount may approach informal lenders while those that need bigger loans may rely on banks and other formal institutions. Issues around collateral, KYC requirements and arduous procedures may be an impediment to low take-up of formal products and services. These barriers may be better understood if a study of the supply-side is undertaken.

Looking at Figure 24, one notices that business owners use a myriad of financial products in differing combinations. There are about 27 percent of MSMEs that use both formal and informal products. However, as a business moves from micro enterprise to medium scale, the proportion of informal product usage decreases.

Figure 25: Overlaps and Financial Access Strand (%)

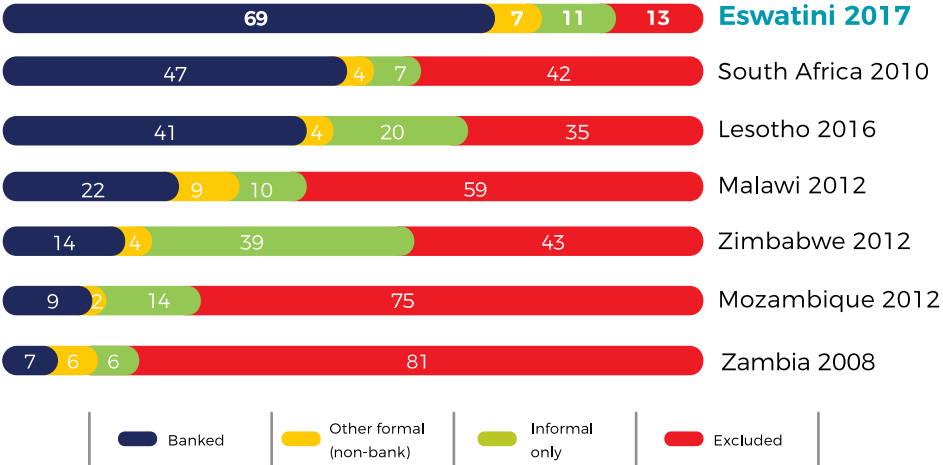


Financial Access Strand 2017 (%)



Swazi MSMEs enjoy better financial access compared to their neighbours in the rest of the SADC region. As shown in figure 25, more than three quarters of the MSMEs in Eswatini are banked and a further 7 percent access financial services from other formal institutions. The financially excluded MSMEs constitute only 13 percent of the MSME population in the country which is by far higher than the figure for other countries.

Figure 26: Cross-country comparison of MSME financial access Strand (%)



Source: FinScope MSME Swaziland 2017 Survey

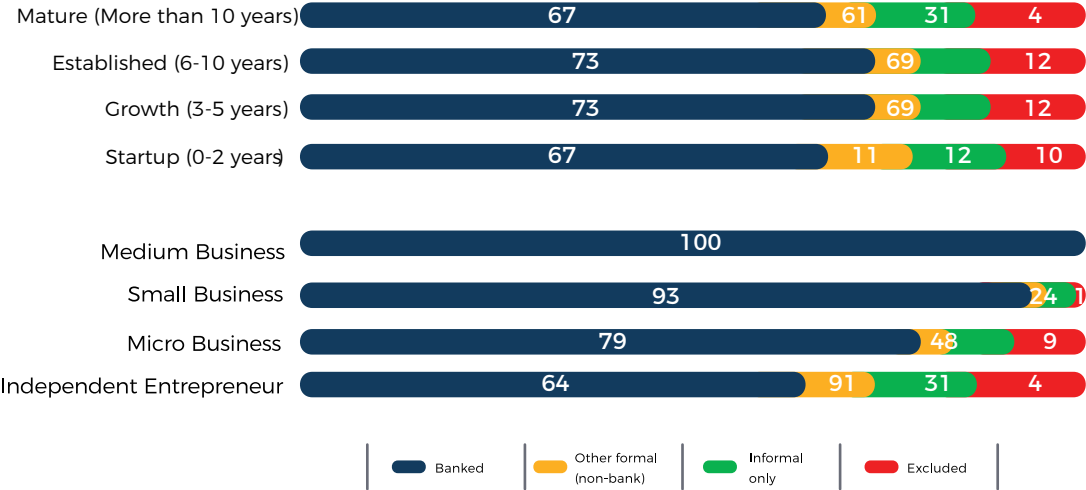
5.1 Bank account: access and usage

Bank account ownership is important for business owners. It allows MSME owners to efficiently manage their financial resources because keeping cash in a fragmented manner may lead to loss and it can be exposed to theft and misuse. In addition, a small business owner with a bank account can trade with customers through correspondence by sending goods through an agent with the customers depositing the money in a bank account from their place of residence. Only 14 percent of MSMEs banked are using business accounts (accounts in the name of the business) while 86% use personal bank accounts. 95 per cent of banked independent entrepreneurs (64 percent) use personal accounts compared to 30 percent of the medium enterprises (100 percent) using personal accounts. This shows that not only do bank access increase with business size but also the appropriate bank account usage improves with business size.

Figure 26 shows comparison of bank account ownership across different size categories. With 100 percent of them owning a bank account, medium enterprise owners enjoy the most access to a bank. Access to bank account is positively correlated with business size and hence it is the lowest for micro and independent enterprises. The independent entrepreneurs, micro enterprises and small businesses use other formal financial institutions and informal institutions as alternative markets to shop financial services. The highest usage of other formal from the access strand is by independent entrepreneurs, who may be using mobile money as substitute to banking services. The smaller businesses have higher levels of exclusion.

Maturity of the business does not seem to show any pattern relating to financial inclusion. One would expect that more mature businesses have higher levels of financial inclusion as these are likely to be more formalised and developed. Figure 26 illustrates that businesses in the growth and established phases are more included (with the highest proportion of banked business owners).

Figure 27: Access Strands for MSMEs across size categories (%)



Source: FinScope MSME Swaziland 2017 Survey

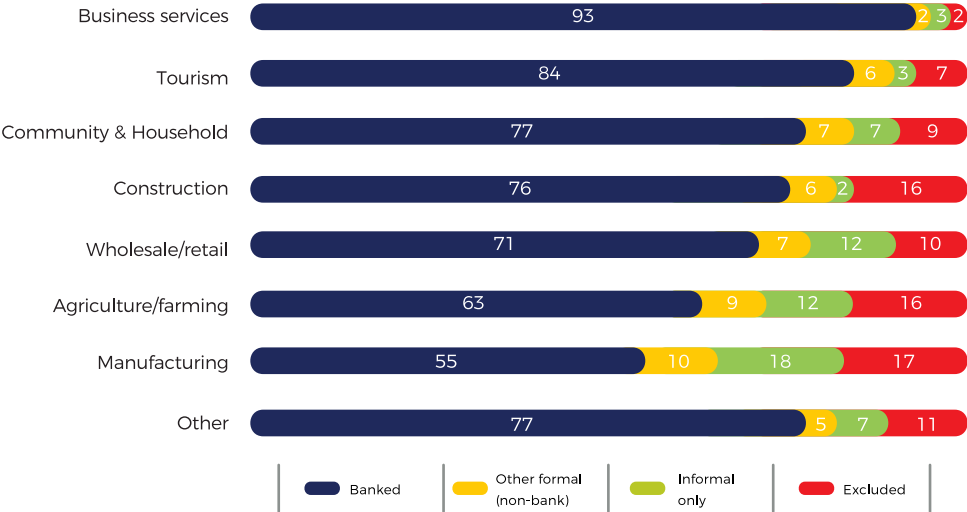
Although bank account ownership can help in efficiently managing resources such a benefit can accrue to small business owners that use their bank account. Bank accounts can be used to store value and also serve as a means to access other financial services such as credit and insurance. The level of bank account access by MSMEs is generally high compared to other countries in SADC and if used correctly, can be leveraged on to increase general access to finance.

The level of financial access also differs by sector as the demands of financial services differ with complexity of the nature of business conducted and the ecosystem in which they operate. As shown in Figure 27, more complex sectors such as business services, tourism and community sectors have higher banked businesses. Less complicated sectors such as farming and wholesale and retail sectors have lower levels of formal access. This can be attributed to higher informalisation and low turnovers discussed in chapter 3 that may not warrant the business owner to use formal products. Formal product access and usage also depends on the ecosystem. If the clients and input suppliers largely operate on a cash system, the use of formal products like Point of Sale (POS) may actually be counter-productive to the business owner. Understanding the ecosystem of the business will help create products that improve the way business owners collect and make payments and improve their cash flow management and security.

The costs associated with digital payments systems must also be considered. Some small businesses may incur relatively large transaction costs to use POS systems which may then seems to be a cost rather than as a value service to process their

payments. While Eswatini has the highest banked population, 90 percent pay their employees via cash and 98% are paid in cash by their clients. Only 5 percent use cheques and 2 percent use bank transfer to receive payment from their clients. This indicates a gap between ownership of banking products and usage.

Figure 28: Financial Access Strand of MSMEs by Sectors (%)



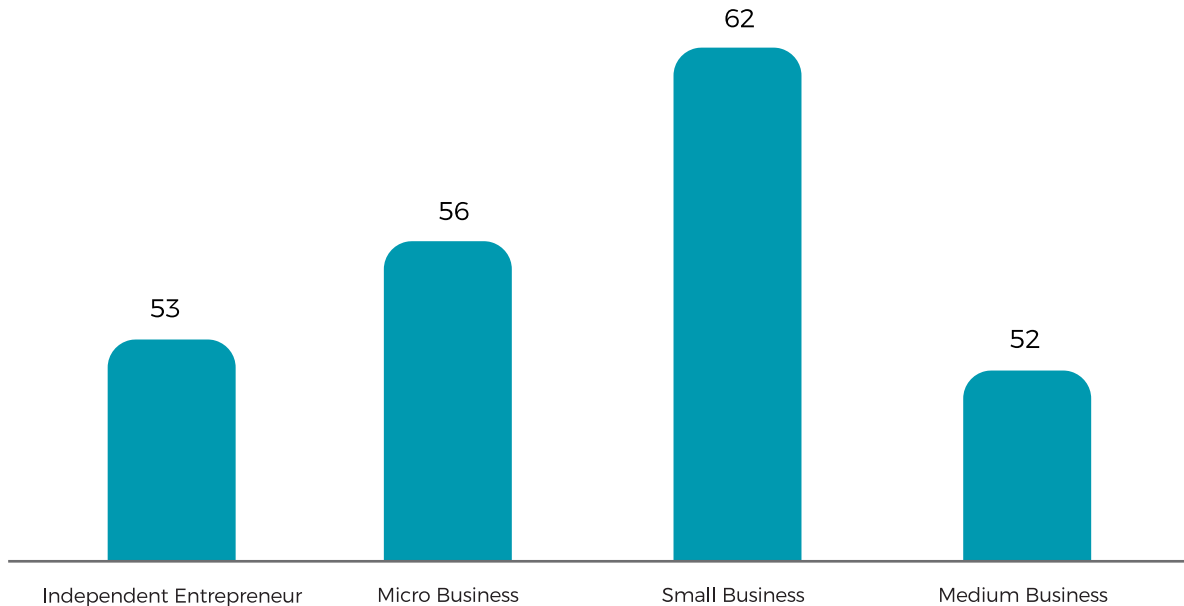
Source: FinScope MSME Swaziland 2017 Survey

5.2 Mobile money account ownership and usage

Mobile cellular subscription has seen a dramatic increase in Africa and along with it came mobile money services. A recent report by the World Bank (2014) showed that Africa has achieved a significant improvement in financial inclusion driven by growth in mobile money account ownership. Mobile money services allow individuals to access financial services via their mobile phones and they are particularly beneficial in places where access to conventional financial services is low.

As shown in Figure 28, mobile money is more popular among small business owners than both medium, micro and independent enterprise owners. In terms of usage of mobile account usage, small enterprise owners show a higher tendency of using their mobile money account (27 percent) more than independent, micro and medium businesses with 21 percent, 18 percent and 20 percent respectively. The higher usage of mobile money for business by independent entrepreneur makes sense due to higher informality of these business size. This presents an opportunity for mobile money services to be innovative in offering business solutions to MSMEs.

Figure 29: Mobile money account ownership among MSME owners (%)



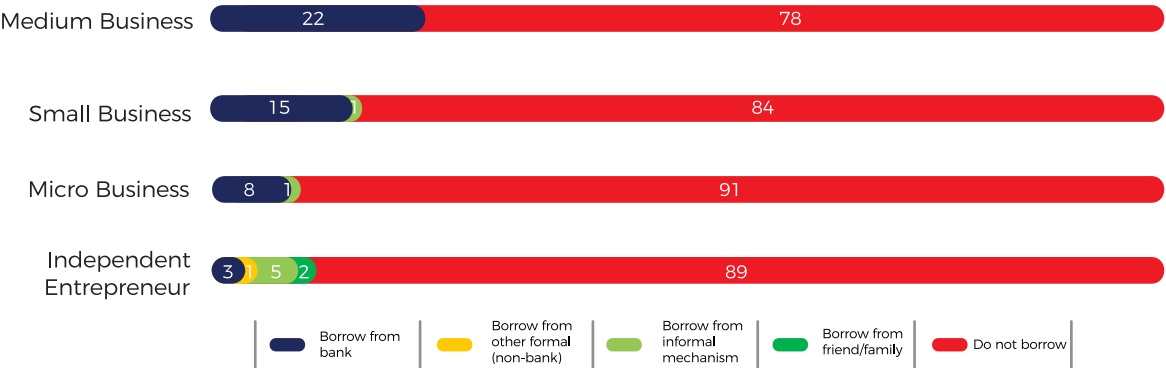
Source: FinScope MSME Swaziland 2017 Survey

5.3 Access to credit

Credit allows individuals to start-up a new business or to finance expansion of existing businesses. However, lack of access to finance to entrepreneurs is cited as one of the major impediments to entrepreneurship and private sector development. This is well recognised by policy makers and easing access to finance is among the most important measures needed to promote MSME development. The Government of Eswatini has been making concerted efforts, through National Financial Inclusion Strategy, SMME policy and Financial Sector Development Strategy, to introduce financing schemes tailored to the nature and needs of small businesses. One example of such an instrument is the Small Scale Enterprise Loan Guarantee Scheme (SSELGS) administered through the Central Bank. This was to provide credit guarantee to viable small businesses which would otherwise not obtain credit from the banks due to a lack of collateral. To qualify, businesses have to be registered which only speaks to the 25% of registered or licensed businesses in Eswatini. Further, the SSELGS has not been widely used and as a result has been overcapitalised (SSELG Review, 2016). Although the scheme covers bank risk and is higher than the global average at 85%, banks have been reluctant to use the guarantee from the Central Bank as they have to go through arduous processes to recoup their funds in the outcome of a default.

The study compared MSME owner access to credit across the size categories. Comparison is made along access to credit from a bank, other formal, informal and family and friends. As shown in Figure 29, while 10 percent of medium enterprise owners accessed bank credit only with one in five medium business having access to bank credit. Fifteen percent of small business owners and 8 percent of micro enterprise owners accessed bank credit. Despite a wide variation in access to bank credit across the three biggest size categories, the extent of exclusion from the credit market remains, on average, 90 percent for all of them. This is the case due to filling the shortfall by accessing credit from other-formal financial institutions, informal entities or family and friends. Informal finance may appeal to MSME owners because it is likely to be faster, more flexible and convenient. However, it has two serious limitations. First, informal loans are small and hence they are mostly used for financing operations (working capital) rather than growth (expansion). Secondly, informal lenders charge unreasonably high interest rate that erodes profit of small firms. The independent entrepreneurs have the lowest access to formal credit (4 percent) and hence rely on informal mechanisms and also borrow from family and friends.

Figure 30: Credit Strands for MSME owners (%)



Source: FinScope MSME Swaziland 2017 Survey

5.4 Savings and investment

Most MSMEs finance working capital and growth using own money and hence MSME access to saving and investment products is vital to ensure availability of funds for future use. As shown in figure 30, less than half the MSMEs save at a formal financial institution of which banks play an important role. The rest of the MSMEs either save informally or do not save at all.

Figure 31: Savings Strands (%)



Source: FinScope MSME Swaziland 2017 Survey

5.5 Insurance and risk mitigation

MSMEs have a peculiar operational and financial risk profile. While co-ownership and using diversified sources of financing can help distribute risk most MSMEs are sole owned and the owner is the only source of capital. Consequently, the owner would absorb the risk all alone and this can easily lead to collapse of a business. Therefore, insurance plays an important role as part of risk management mechanism in MSMEs. As shown in figure 31, while less than a third of the MSMEs are formally insured the remaining majority are not insured. This shows high degree of susceptibility of MSMEs to a risk event be it operational or otherwise.

Figure 32: Insurance Strands (%)

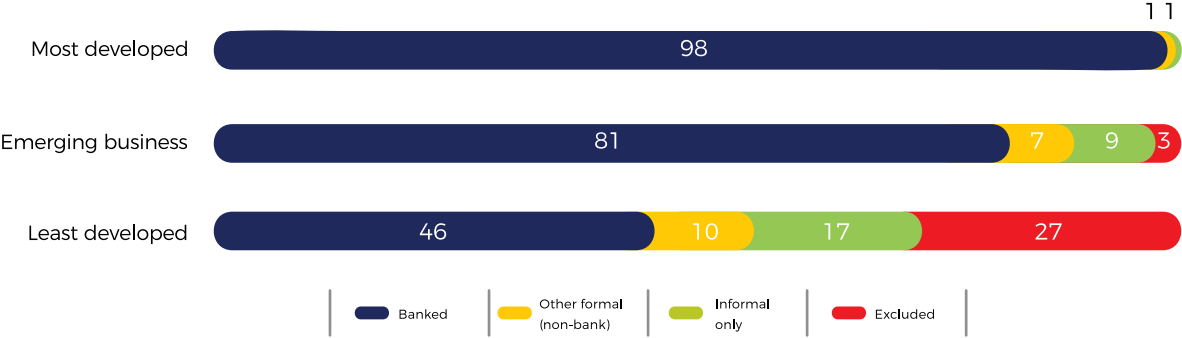


Source: FinScope MSME Swaziland 2017 Survey

5.6 Financial access by Business Development Measure

Financial inclusion is a function of business development which is clear from figure 32 which shows that almost all the most developed businesses are banked. Usage of banks increases while usages of other formal and informal financial services increases as level of business development decreases. The least developed businesses are most likely to use other formal or informal financial service providers or excluded.

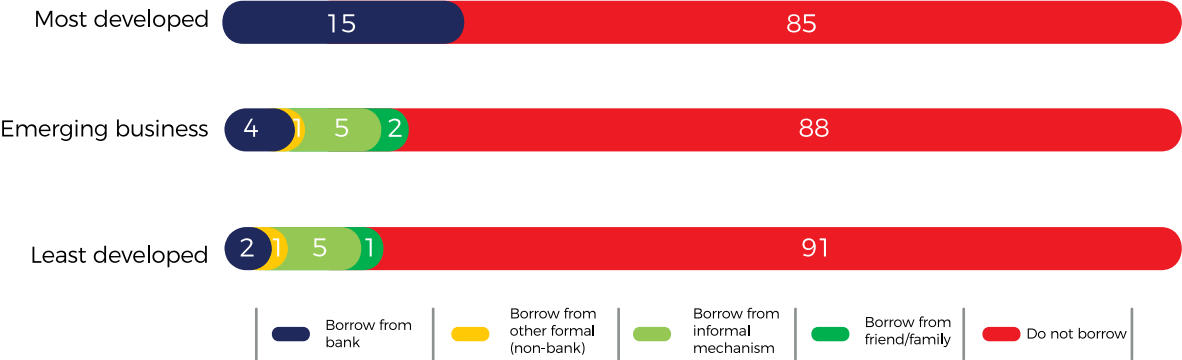
Figure 33: Financial Access Strand by BDM (%)



Source: FinScope MSME Swaziland 2017 Survey

Credit penetration among the MSME sector is very low and significant variation is observed across the three BDM categories. As shown in figure 33, most developed businesses are relatively more likely to access a bank credit while emerging and least developed businesses access either other formal or informal credit.

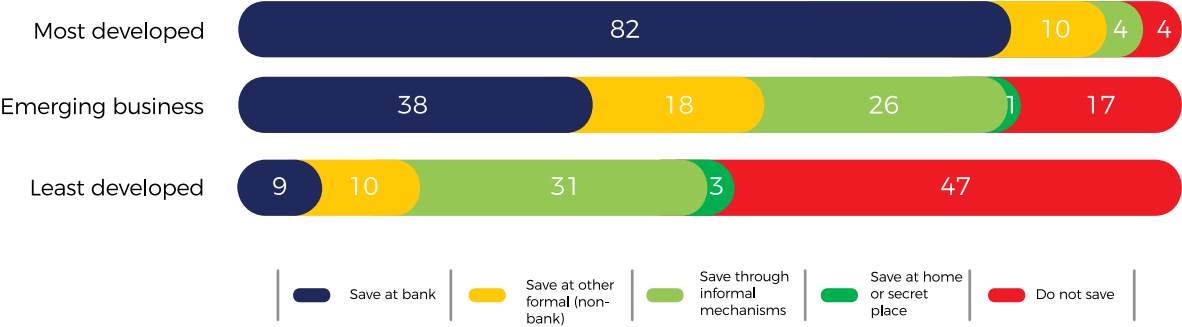
Figure 34: Credit strand (%)



Source: FinScope MSME Swaziland 2017 Survey

Usage of saving products is also related to level of development. As shown in figure 34, most developed businesses use bank saving while emerging and least developed businesses use other formal or informal saving products. Exclusion from the saving market is higher among least developed and emerging businesses.

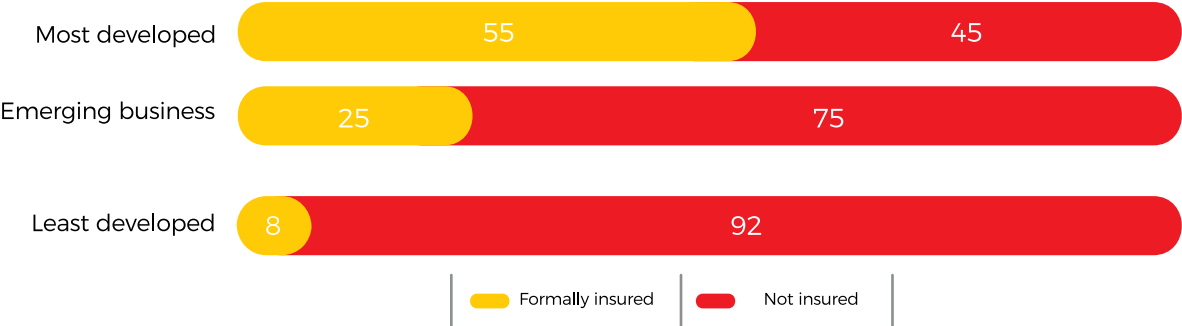
Figure 35: Saving Strands (%)



Source: FinScope MSME Swaziland 2017 Survey

As is the case with other financial products, access to insurance varies across business development categories. As shown in figure 35, more than half the most developed businesses use formal insurance compared to a quarter of emerging businesses and less than ten percent of the least developed businesses.

Figure 36: Insurance Strands (%)



Source: FinScope MSME Swaziland 2017 Survey

In general, access to financial services varies across the three size categories with medium enterprises enjoying the most access to financial services compared to micro and small businesses. Medium enterprises also fare by far better than micro and small businesses in using their bank and mobile money accounts. Micro and small business, on the other hand, are largely excluded from the formal financial sector and hence resort to informal finance and family and friends to source financial services.



“ MSMEs may fail due to lack of key skills needed to successfully run a business... Support to the sector provided to MSMEs is therefore believed to alleviate this problem and help firms in the sector to survive and grow. The Government in Eswatini has built MSME support infrastructure where different public institutions are involved in the provision of business support to the MSME sector. ”

6. HIGH GROWTH MSMEs: PROFILE AND GROWTH CONSTRAINTS

The MSME sector comprises heterogeneous enterprises that differ in terms of the economic sectors in which they operate, number of people they employ and extent of formality in their operation. Governments often cast a wider net by attempting to promote development of the MSME sector by providing support to businesses of all sizes. However, such an approach often fails to deliver the expected outcome due to lack of resource to reach out to all businesses in the MSME sector. Besides, it is not efficient to spend resources to support every business enterprise without adequately understanding its growth prospects and potential contribution to employment and national output. It is therefore imperative that a focused-approach is followed where limited public resources are used in promoting the growth and development of enterprises that show the potential to register a rapid growth and hence contribute to economic development of the country.

What are high growth MSMEs?

The study classified businesses into high growth MSME category using a battery of criterion that includes annual turnover, owner's perception of business performance and prospect for growth.

The study used annual turnover threshold of E 60,000 which is currently used as a cut-off point of small businesses. This has been used in conjunction with two qualitative measures that signify owner's perception of business performance. Owner's perception of business performance was captured using two survey questions that include "Thinking about the last 12 months, would you best describe your business as growing or the same or worst or just starting out?" and "Do you consider your business to be very successful, fairly successful, struggling but promising, struggling but surviving or at risk or in danger of failing?"

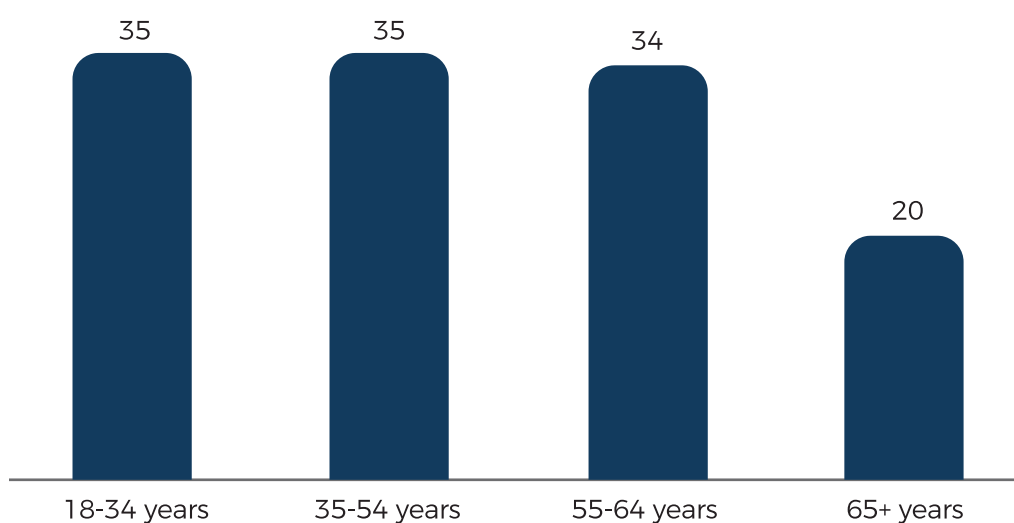
Therefore, the criteria for high growth MSMEs included growing business with annual turnover of at least E60,000 and those that are perceived to be very successful or fairly successful or struggling but promising.

Using the criterion described earlier, the study identified 19,721 high growth MSMEs with a combined annual turnover of E1.25 trillion. The study describes in the following sections profiles of the owners and business characteristics. The study also presents obstacles faced by these businesses.

6.1 High growth MSMEs: owner profile

The study analysed high growth MSME owner's profiles across important demographic characteristics including age, gender, level of education and location (urban/rural). As shown in figure 36, high growth MSMEs concentrate among individuals aged between 18 to 64 years, and their prevalence is the lowest among those aged 65 and above.

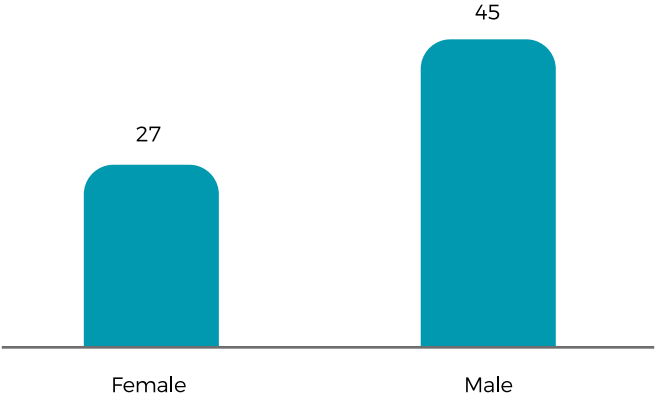
Figure 37: Age of high growth MSME owners (%)



Source: FinScope MSME Swaziland 2017 Survey

The gender proportion for high growth MSMEs is skewed towards males (figure 37) and this contrasts with the MSME ownership pattern that shows majority of the MSMEs are female owned. The fact that females are less likely to own a high growth business compared to their male counterparts calls for intervention by the government where targeted support is accorded to female small business owners in the country.

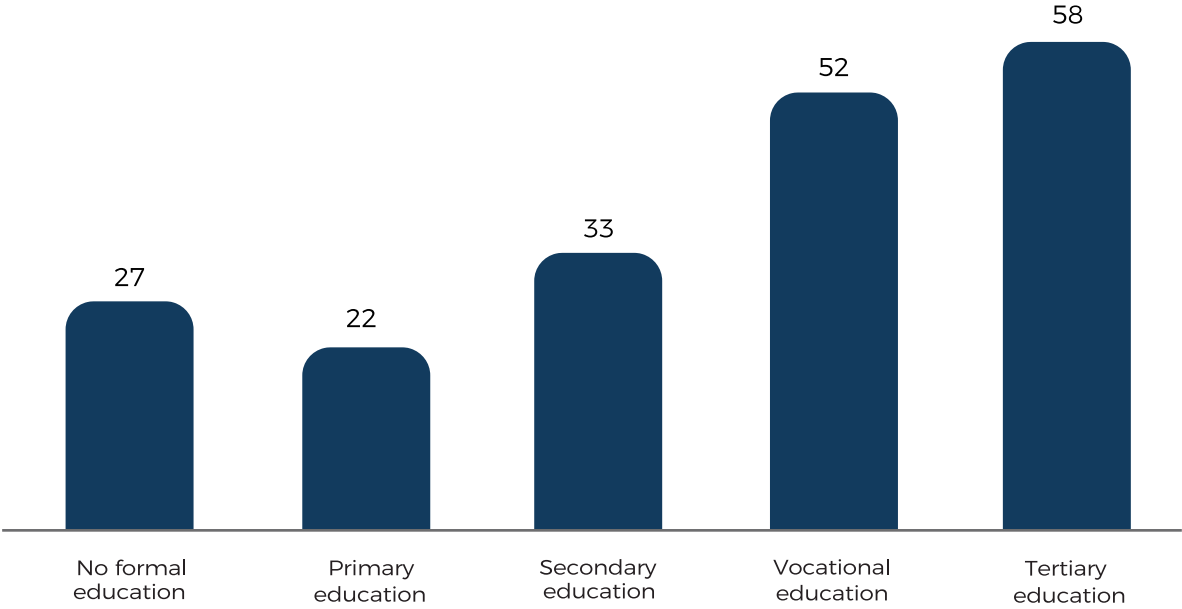
Figure 38: Gender of high growth MSME owners (proportion of gender group) %



Source: FinScope MSME Swaziland 2017 Survey

Analysis across the level of education in figure 38 reveals that high growth MSME ownership is highly concentrated among those with vocational or university education which is not consistent with the general ownership trend where most MSME owners are high school complete. Introduction of entrepreneurial education into high school curriculum is likely to increase MSME owners' ability to transform their micro-enterprise into a promising high growth business. The figures reported are as a proportion of the education group.

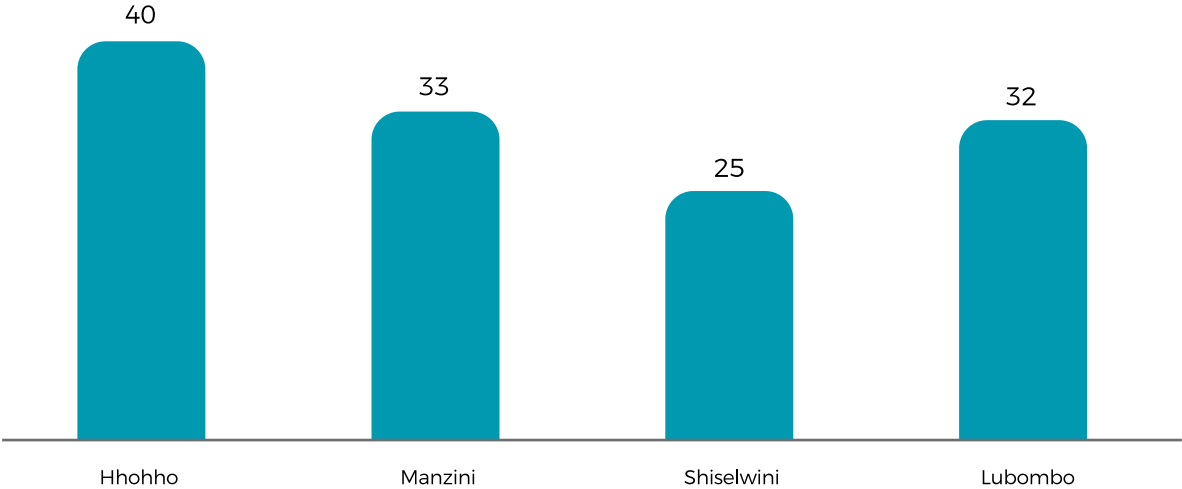
Figure 39: Level of education of owners of high growth MSMEs (%)



Source: FinScope MSME Swaziland 2017 Survey

Regional comparison shows that more high growth MSMEs are in Hhohho than in the rest of the regions and this contrasts with the general pattern where most MSMEs are in Manzini. This implies that bulk of MSMEs in Manzini, the commercial capital of the country, are microenterprises with lower growth prospect and may not show the highest potential to grow.

Figure 40: Distribution of high growth MSMEs across regions (%)

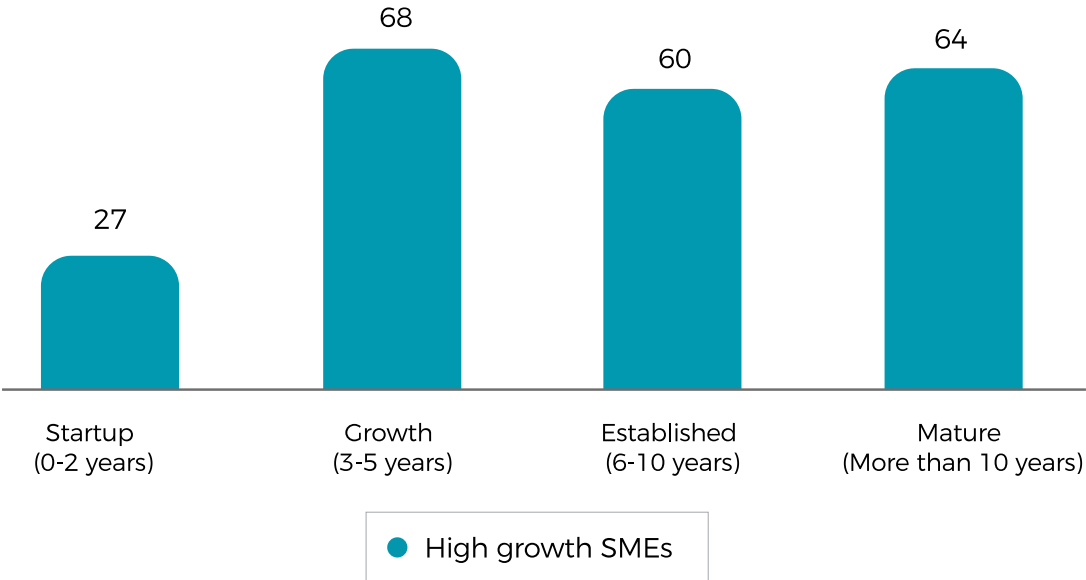


Source: FinScope MSME Swaziland 2017 Survey

6.2 Business characteristics

The study analysed the high growth MSMEs by age, size and business sector. As shown in figure 40, while only a quarter of businesses at a start-up stage are high growth enterprises almost two-thirds of those after start-up are high growth MSMEs. This implies that while conceiving a promising business is one thing, establishing a business entity that is a high growth enterprise at the outset is another matter. Entrepreneurs can lead their business into success as their gain better understanding of the business environment in which they operate.

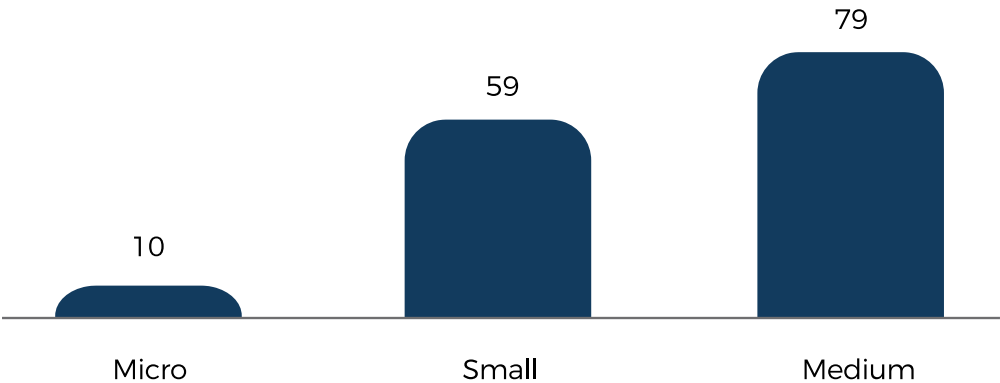
Figure 41: High Growth MSMEs by Age of the business (% proportion of group)



Source: FinScope MSME Swaziland 2017 Survey

Comparison of high growth MSMEs across size shows that most of them are either small or medium enterprises. Only a fraction of high growth MSMEs are micro-enterprises. This contrasts with the distribution of MSMEs across size categories presented in section 4 that shows that the MSMEs sector is dominated by micro enterprises followed by small businesses.

Figure 42: High growth MSMEs by size (% proportion of group)

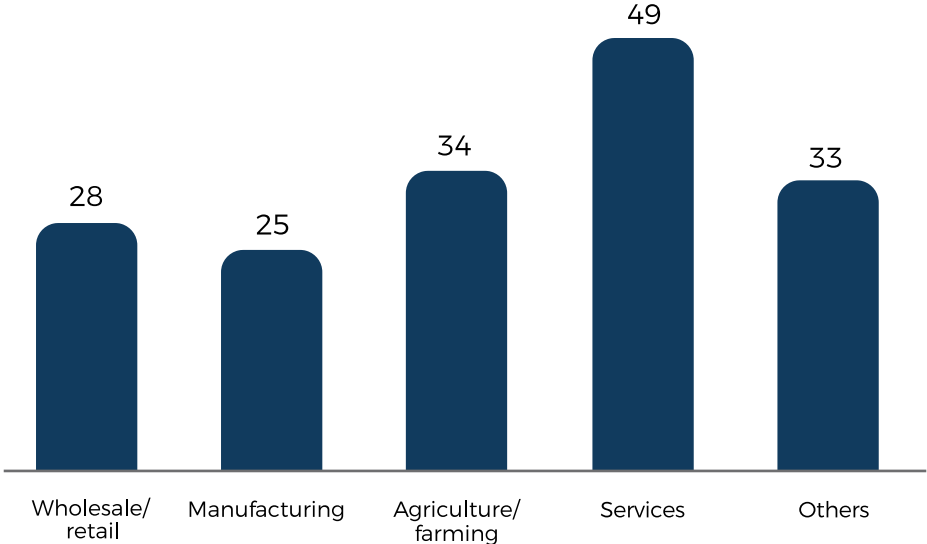


Source: FinScope MSME Swaziland 2017 Survey

Sectoral distribution of high growth MSMEs shows that half of the businesses in the service sector is high growth compared to only a quarter in the manufacturing sector. A stagnant MSME population in the manufacturing sector means the government’s plan to transform the economy through industrialisation partly

hinges on promoting growth of a vibrant MSME sub-sector in the manufacturing industry.

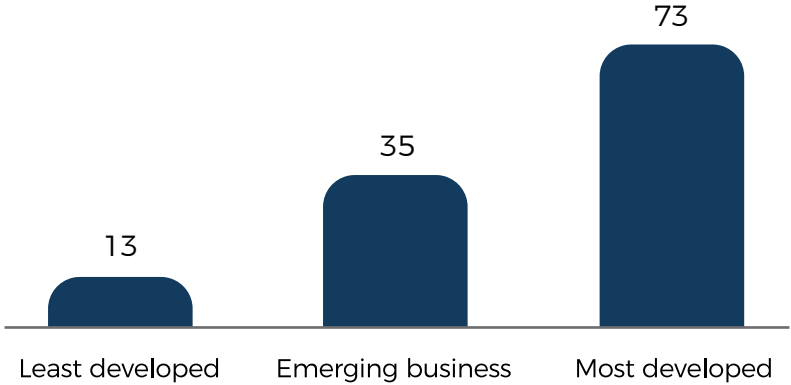
Figure 43: Sectoral distribution of high growth MSMEs (% proportion of group)



Source: FinScope MSME Swaziland 2017 Survey

Analysis of high growth MSME distribution across business development categories shows that large proportion of most developed businesses are high growth enterprises. The proportion of high growth MSMEs is lower among emerging and least developed entities. This suggests that significant proportion of the MSMEs need access to infrastructural services as well as support in the form of business development assistance.

Figure 44: Business development levels of high growth MSMEs (% proportion of group)

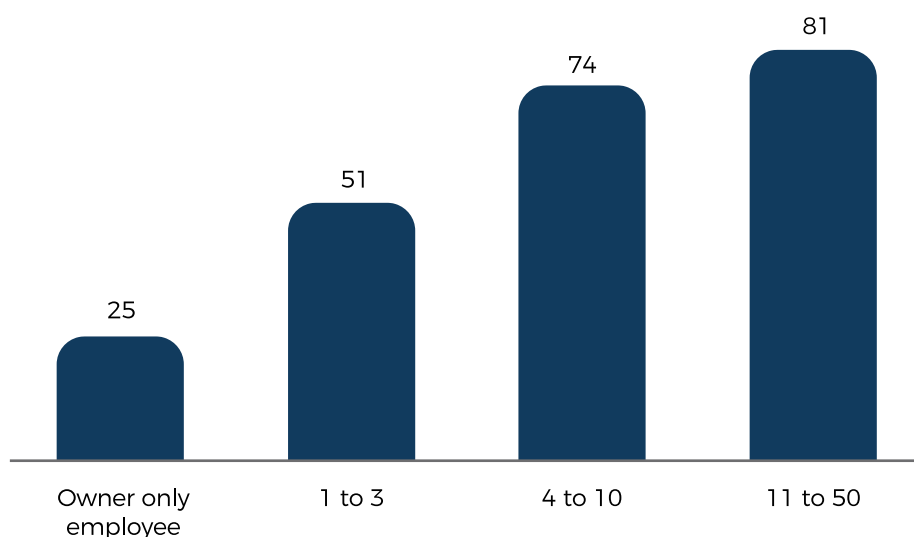


Source: FinScope MSME Swaziland 2017 Survey

6.3 Employment potential

MSMEs are particularly known for their important contribution to job creation, and it has been widely accepted that development of the MSME sector would help in alleviating joblessness in most developing countries. Therefore, the study analysed high growth MSMEs based on their employment potential. As shown in figure 45, there is a very high degree of concentration of high growth enterprises among those that employ at least four people. High growth enterprises are less likely to prevail among the independent entrepreneurs. Correlation between employment potential of a business and its growth level suggests that an effort to grow businesses in the MSME sector increases the potential contribution of the sector to job creation.

Figure 45: High growth MSMEs across business size categories (% proportion of group)



Source: FinScope MSME Swaziland 2017 Survey

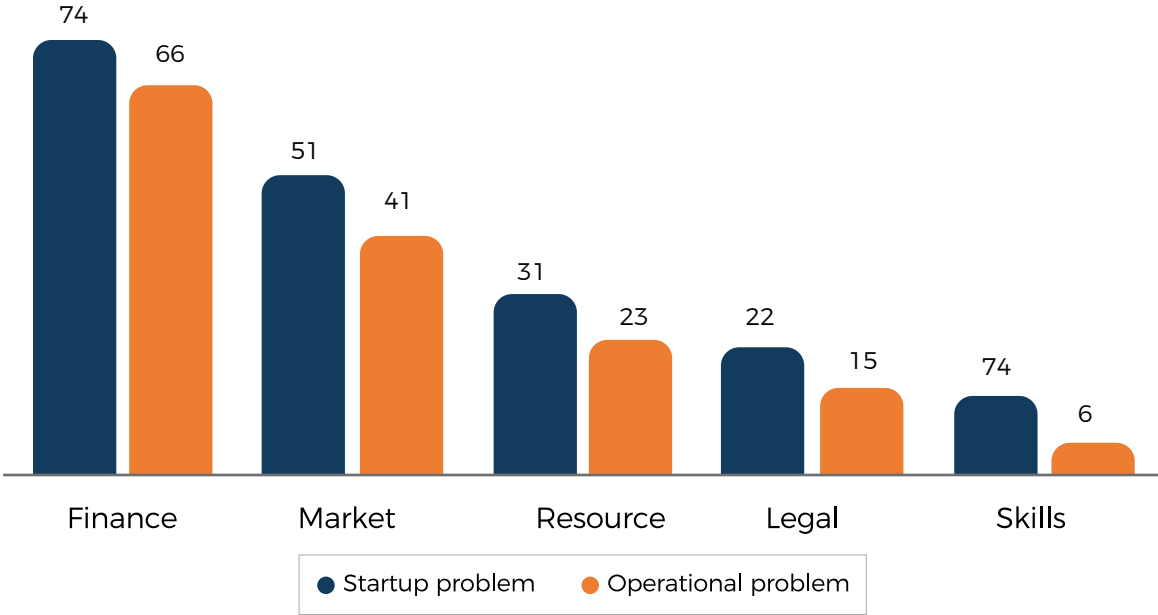
6.4 Growth constraints and business support

Despite their crucial role in promoting economic development by increasing national output, reducing unemployment and poverty, MSMEs often face many obstacles that impede their growth and sometimes threaten their survival. Any MSME development programme should thus be designed with the aim of uprooting the obstacles and making the business environment conducive for MSMEs to grow and thrive. Therefore, in this section the study presents the most binding constraining high growth MSMEs face.

As shown in figure 46, finance is the most binding problem for most high-growth MSMEs both at start-up and operation. MSME owners also cite marketing related

problem as a binding constraint. The implication is clear. High growth MSMEs can grow faster by providing financing that suits their needs.

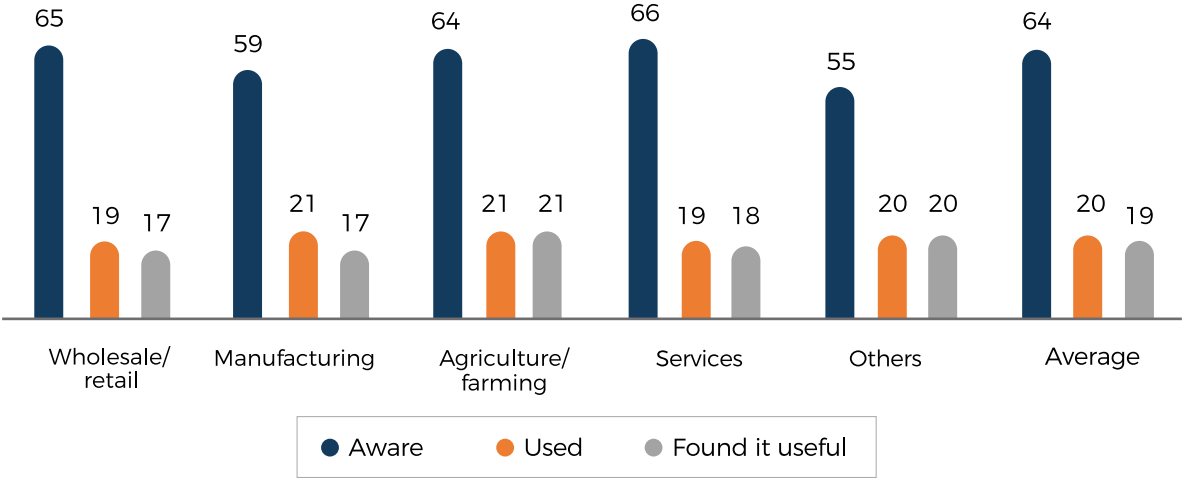
Figure 46: Challenges faced by high growth MSME across business sectors (% proportion of group)



Source: FinScope MSME Swaziland 2017 Survey

The challenges high growth MSMEs face can be resolved by getting the appropriate support service from MSME support infrastructure in Eswatini. However, the support infrastructure proves useful when MSME owners use it and when they find it useful to grow their businesses. As shown in figure 47, about two third of owners of the high growth MSMEs are aware of support infrastructure but only a third of them actually use it. Interestingly, almost all the MSME operators that used the support service found it useful. Therefore, to make more MSMEs to benefit from the support infrastructure, the government need to run campaigns that increase MSME operator’s awareness of support services and most importantly encourage usage of the services.

Figure 47: Awareness and usage of MSME support service among high growth MSME owners (% proportion of group)



Source: FinScope MSME Swaziland 2017 Survey

In general, analysis of the profiles of owners of high growth MSMEs revealed that ownership is skewed towards males suggesting that females are less likely to own a high growth MSME compared to their male counterparts. High growth MSME ownership increases with increase in level of education. In terms of location, Shiselweni has proportionately more high growth MSMEs. Our analysis of characteristics of the businesses shows that most high-growth MSMEs are at start-up stage that require greater business support services and they are more likely to be small businesses than micro and medium enterprises.

Sector wise, the high growth MSMEs concentrate in the wholesale, service and agriculture sector and majority of them are businesses where the owner is the only employee. Finance is cited as the most binding constraint for survival and growth of the high growth MSMEs and it is cited as an obstacle both at start-up and during operation. Although there is MSME support infrastructure available in the country, only half the MSME have the awareness of availability of the service and a fraction of them actual use it.

7. CONCLUSIONS AND IMPLICATIONS FOR STAKEHOLDERS

This section presents the conclusions drawn from analysis of MSME owner profile and characteristics of MSMEs in Eswatini as well as implications for stakeholders.

7.1 Conclusions

The study has drawn the following conclusions from graphical analysis of profile of MSME owners, characteristics of their businesses and the challenges they face:

- Quarter of the MSMEs owners are the youth: Young entrepreneurs constitute a quarter of MSME owners in Eswatini which shows the potential of the MSME sector in alleviating youth unemployment problem and its contribution to the government's effort of promoting economic empowerment of young people in Eswatini. At the same time, this also implies strengthening the MSME support system so it can reach out to young entrepreneurs who may have limited business experience.
- Eswatini women are more likely to own micro-enterprises and less likely to own small and medium firms. Two thirds of MSME owners are women but most of them run micro enterprises and also proportionately fewer women own high growth MSMEs. This calls for provision of training programs tailored to MSME owner women to enable them to grow their businesses.
- Most MSME owners have secondary education: Nearly two-thirds of the MSME owners have secondary education. This figure is significant given the fact that secondary education penetration is 25 percent in the country.
- Low level of entrepreneurship in the manufacturing sector: Despite the manufacturing sector being critical contributor to economic transformation relatively fewer MSMEs participate in the sector which means contribution of the MSME sector to industrialisation would be marginal.
- High degree of entrepreneurial inclination. Nearly two thirds of the owners in the MSME sector had entrepreneurial intention when they started a small business. This is remarkable because entrepreneurial inclination is positively correlated with ownership of high growth MSMEs.
- Lack of finance is the most binding constraint at start-up and during operation. Majority of MSME owners cite lack of finance as the major obstacle at start-up and even during operation. Only 6 percent of them could access formal credit and close to 90 percent are completely excluded. Finance is also cited as a binding constraint even among high growth MSMEs and financial exclusion becomes sever as size decreases.

- Financial inclusion is mainly driven by size. Almost all medium enterprise owners are banked compared to only two third of micro enterprise. The same trend is observed in usage of both bank and mobile money accounts.
- Very few MSME owners make use of MSME support infrastructure. Despite existence of MSME support infrastructure that involves many government department, only a few of the MSMEs actually use the service. It has been noted that those that used it found the service useful.
- Most high growth MSMEs are small enterprises at a start-up stage. More than 40 percent of high growth MSMEs are small enterprises at a start-up stage and they are small enterprises which means they need to be supported to be able to contribute to job creation in the country.

7.2 Implications for stakeholders

Based on conclusions drawn from analysis the study forwards the following policy recommendations for policy makers, NGOs and Financial Service providers.

7.2.1 Recommendations for policy-makers

The Government of Eswatini has been promoting the development of the MSME sector in the country. The government recognizes that creating a vibrant MSME sector requires participation of all sectors of society including NGOs, development agencies and the private sector. The study suggests that the Government of Eswatini should take leadership in promoting the development of the MSME sector as hence needs to:

- Further study of the supply-side of financial services to get a fuller understanding of the financial supply of goods and services as well as policy and regulation of the MSME sector. The MSME sector is constrained by a manifold of factors that are not part of the regulatory business environment – insufficient entrepreneurial, managerial and technical skills, weak financial services usage (amidst high uptake), low levels of innovation and specialization among others. As the current report is based on the demand side survey, further understanding of the constraints faced by MSME owners is needed through focus group discussions and a full supply-side diagnostic to document and the full business environment. It will only be against this understanding of the full MSME economy will gaps be exposed and opportunities identified. This would play a significant role in shaping the revised MSME policy to speak more to the nature of the Swazi MSME sector and architect it forward.

- Set up a comprehensive MSME development framework that clearly outlines the objective of interventions and assign responsibility to different stakeholders.
- Target high growth MSMEs from each economic sector instead of casting a wider net. This is important in efficient utilisation of financial and non-financial resources and also in achieving objectives set out in the MSME development policy. The government needs to be savvy about the sectors which have the most potential versus those that are strategic as these need to be both. While an industrialisation policy is indeed needed, for their part, government is recommended to create an enabling environment for industrialisation particularly for MSMEs. This is where MSME industrial policy needs to be focused – creating and improving the environment for entrepreneurship, balancing aspects of gender and competition (government protectionism being least favoured); and underlying issues related to regulatory and legal infrastructure.
- Endeavour to create more awareness among MSME owners about the MSME support infrastructure. This can be achieved by showcasing through public media successful MSMEs that used the support services.
- Set up a framework where emerging entrepreneurs are mentored by prominent business men in the country.
- Set up and promote MSME-large business linkages: This is useful in creating market to small businesses that often struggle to find one. Such a linkage becomes sustainable if MSMEs are empowered to supply raw materials to larger business. This also enables value-chain financing models to be actioned without any financial institution involved but only the value chain players financing downstream partners allowing for specific input-output models to be developed that speak to the needs of the nature of business. This leads to the next point.
- Value chain analyses is important to understand in the case of agriculture business. The main rationale for this initiative would be to provide in-depth understanding on sector-specific bottlenecks that hinder development of an industry that is considered to be strategic. Unpacking some of the linkages becomes key. For example, urban-market-oriented or export-oriented value chains can be better understood and linked with the development of infrastructure such as quality roads and ports. This comprehension can allow an improved participation of the MSME if these value chains are identified e.g. the supply of sugar cane to millers by farmers can be one value chain that can be better understood and promoted or even replicated in other agricultural outputs.

7.2.2 Recommendations for NGOs and other development agencies

NGOs can play an important role in the development of a vibrant MSME sector in Eswatini. However, lack of coordination within the NGO sector and incongruence between initiative by the NGO sector and government strategy may render efforts unsuccessful. Therefore, the following key actions are needed by the NGO sector and development agencies:

- Design MSME support programs (financial or otherwise) following the MSME development framework developed by the government.

7.2.3 Recommendations for financial service providers (FSPs)

Finance is the most constraining factor to MSME survival and growth. Financial service providers often view the MSME sector not commercially viable because of too much risk they bring to their portfolio. In addition, MSMEs demand small amounts of loan that makes financial service providers incur a processing cost that exceed the amount of revenue they can generate from it. This is aggravated by lack of competition in the banking market leading to a tendency among banks to rely more on established medium and large enterprises. Financial Service Providers need to:

- Develop innovative credit products tailored to the needs and nature of small businesses
- Set up a dedicated department for MSME financing
- Collaborate with other financial service providers to ease MSME financing needs

REFERENCES

1. CIA (2017) CIA Factbook, Retrieved on December 2017 from <https://www.cia.gov/library/publications/the-world-factbook/geos/wz.html>.
2. Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Van Oudheusden, Peter. 2015. The Global Findex Database 2014: measuring financial inclusion around the world. Policy Research working paper; no. WPS 7255. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/187761468179367706/The-Global-Findex-Database-2014-measuring-financial-inclusion-around-the-world>
3. Fanta et al (2017) Small business performance: Does access to finance matter? Evidence from SADC using FinScope surveys, Policy Research Paper No. 05/2017, FinMark Trust, Johannesburg.
4. FinMark Trust (2017) New facts and figures from FinScope MSME Survey Swaziland 2017. Accessed on November 22,2017 and retrieved from <https://www.finmark.org.za/new-facts-and-figures-from-finscope-MSME-survey-swaziland-2017>
5. Kolstad, I., & Wiig, A. (2015). Education and entrepreneurial success. *Small Business Economics*, 44(4), 783-796.
6. Small Scale Enterprise Loan Guarantee Scheme Review – Main Report. 2016.
7. Vos, E., Yeh, A. J. Y., Carter, S., & Tagg, S. (2007). The happy story of small business financing. *Journal of Banking & Finance*, 31(9), 2648-2672.
8. World Bank. 2017. *Doing Business 2017: Equal Opportunity for All*. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0948-4. License: Creative Commons Attribution CC BY 3.0 IGO.
9. World Bank (2017) World Development Indicators. Retrieved on June 19,2017 from <http://data.worldbank.org/data-catalog/world-development-indicator>.

Annexure 1 – Sampling and Weighting Report

Eswatini MSME 2017 – Calculation of weights

In order to obtain a representative sample of the population, a multistage stratified sample was designed with Region and geographic area (urban/rural) as the explicit stratification variable by CSO Eswatini. The sample was designed in three stages. In the first stage, primary sampling units (PSU) – i.e. the enumerated areas (EA) – were selected with probability proportional to size (PPS) with the 2007 population number of households as measure of size.

The weight of an EA is given by

$$W_{hi} = \left(n_h \times \frac{M_{hi}}{M_h} \right)^{-1} = \frac{M_h}{n_h M_{hi}} \quad (1)$$

where

h indicates the stratum, $h=\{1,2,\dots,8\}$,

i indicates the PSU = EA,

n_h = the designed number of EAs in the stratum,

M_{hi} = the number of households in 2007 in the selected EA i in stratum h,

M_h = the 2007 number of households in the selected stratum h, as summarised in the following table.

Regions & Geo area	Stratum number	Census 2007 HHs
Hhohho Urban	1	21586
Hhohho Rural	2	39139
Manzini Urban	3	30054
Manzini Rural	4	42054
Shiselweni Urban	5	3910
Shiselweni Rural	6	33156
Lubombo Urban	7	10026
Lubombo Rural	8	32270
TOTAL		212195

Seven EAs were replaced by substitutes. The golden rule for selecting a substitute is to draw a similar EA in the same stratum. Unfortunately, this was not the case in the following three substitutes:

Design				Substitute	Realised			
EA	Region	Urban/ Rural	Stratum		EA	Region	Urban/ Rural	Stratum
21 507	2	1	3		21 214	2	2	4
23 502	2	1	3		22 250	2	2	4
23 309	2	2	4		23 209	2	1	3

Due to the fact that three of the substitutes were drawn in different strata, the EA weights in (1) are adjusted to the number of EAs per stratum according to the listing phase,

$$W_{hi}^* = \frac{M_h n_h}{n_h M_{hi} n_h^L} = \frac{M_h}{n_h^L M_{hi}} \quad (2)$$

where n_h^L = the listing number of EAs in the stratum,

For the seven EA substitutes (21214, 22250, 22722, 23209, 31412, 31623, 43302), no 2007 Census information was available. For this reason, the only way to calculate the EA weights for these seven EAs, were to use the listing number of households in the EAs as in equation (2).

In the next stage of weighting, the listing information is used to determine the weight of a household as well as a household with at least one business owner. To obtain an indication of the total number of households (with and without business owners), the weight of a household is calculated by

$$\text{where } W_{hij} = W_{hi}^* \left(\frac{m_{hi}^D}{M_{hi}^L} \right)^{-1} = W_{hi}^* \frac{M_{hi}^L}{m_{hi}^D}$$

j indicates the household,

M_{hi}^L = the listing number of households in EA i in stratum h,

m_{hi}^D = the designed (target) number of households in EA i, stratum h,

Since the designed number of households deviates from the number of households interviewed, the household weights are adjusted as follows:

$$\text{where } W_{hij} = W_{hi}^* \frac{M_{hi}^L m_{hi}^D}{m_{hi}^D m_{hi}^L} = W_{hi}^* \frac{M_{hi}^L}{m_{hi}^L}$$

m_{hi}^L = the interviewed (realised) number of households in EA i in stratum h,

The weight for a household with at least one business owner is calculated and adjusted, similar to the household weight, by

where
$$W_{hij}^B = W_{hi}^* \frac{M_{hi}^{LB}}{m_{hi}^L}$$

M_{hi}^{LB} = the listing number of households with at least one business owner in EA i, stratum h,

It is found that

- the estimated number of households (with or without business owners) equals 266 995,
- the estimated number of households with at least one business owner is 39 922, and
- the estimated number of Business Owners aged 18+, is 59 283.

The latter is calculated by
$$W_{hijk}^B = W_{hij}^B \times x_{hij}$$

where x_{hij} is the number of Business Owners in the jth household.

All calculations and values used are given in Sheet=Wgt_Calc of the attached excel file.

In the last sheet, Sheet=Pivot & Compare, of the excel file, the following estimates are obtained:

- 1) The percentage of households with business owners obtained by using my weights, are compared with the unweighted percentage households with business owners obtained from the listing information.

From Author's Weights

Stratum	Weighted Number of ALL HHs	Weighted Number of BO HHs	Percentage HHs with BO
1	24135.97196	2851.130945	11.813
2	53822.05977	6768.810505	12.576
3	40530.49623	7031.930677	17.350
4	53822.16889	11151.87135	20.720
5	5456.355566	408.1184658	7.480
6	38287.13786	6155.628035	16.078
7	11268.96065	871.8422353	7.737
8	39671.71509	4682.83811	11.804

Compare to:

From Listing info

Stratum	Unweighted Number of Listing HHs	Unweighted Number of BO HHs	Unweighted percentage HHs with BO
1	5632	707	12.553
2	11908	1496	12.563
3	9227	1588	17.210
4	13466	2662	19.768
5	1524	112	7.349
6	8356	1331	15.929
7	2916	195	6.687
8	9151	1094	11.955

It is clear that the two sets of percentages are in the same order.

2) The average number of business owners per business owner households is as follows:

Stratum	Weighted Average number of BO per BO HH
1	1.52
2	1.50
3	1.30
4	1.37
5	1.00
6	1.47
7	1.60
8	2.04

The business owner weights for each person involved in the survey, are given in the first sheet of the attached excel sheet, Weights.



Ariane Neethling, (Dr), (Pr.Nat.Sci)

Private statistical consultant and sampling specialist

2017-06-23

Annexure 2 – Business Development Measure

Technical Note

Background and Summary

This report describes the construction of a Business Development Measure (BDM) developed by FMT. The methodology used broadly follows the approach used for the Business Sophistication Measurement (BSM). Some changes in the approach had to be made owing to the less developed nature of the small business sector in Eswatini. The ‘development’ is now used to indicate more accurately what past BSM’s were actually measuring i.e. how well developed the business is.

As in previous BSM surveys, questions were coded as 1 or 0 for yes or no. Principal Coordinate Analysis was then used to identify underlying factors. Scores were obtained using the Principal Coordinate Analysis and these served as input for k-means cluster analysis, which was used for segmentation.

The first Principal Coordinate was interpreted as an overall measure of business development and the average scores of the businesses in each segment were used to rank the segments. A shorter 20-item version of the BDM scale was also produced to enable a BDM score to be easily obtained for any business in future.

Data Coding and Variable Selection

The survey data set contained over 1689 items, most of which were binary. The Numerical variables were first grouped into categories and the categories then converted into binary variables as well.

A large proportion of these possible options were chosen by only a few businesses, leaving many binary variables with a low number of endorsements. Binary variables with less than 5% endorsement were removed as they did not have the potential to contribute in a major way to the process of segment formation. A number of conditional questions were also removed as these were only answered by a small proportion of the sample. A smaller number of other questions were also omitted from the analysis as it was judged that they would not contribute to the formation of useful segments. After all these processes were completed 263 binary variables remained for further analysis.

Principal Coordinate Analysis²

In constructing the Eswatini BSM, Principal Component Analysis was used to form the BDM scale and this worked well. In situations where binary variables

2 Gower, J. C (1967) Multivariate Analysis and Multidimensional Geometry. Journal of the Royal Statistical Society. Series D (The Statistician) Vol. 17, No. 1 13-28.

are being used and especially where there is a low level of endorsement of many variables it may however be the case that Principal Component will not produce

meaningful results. This was found to be the case for the Eswatini survey and the results from the Principal Component Analysis did not possess face validity in terms of the signs of the variables forming the rotated or unrotated components.

For this type of data an alternative analysis called Principal Coordinate Analysis (Gower, 1967) is more appropriate. This permits the use of any coefficient of similarity and not just the Pearson correlation coefficient. The correlation coefficient is most appropriate for normally distributed data and is not suitable for binary data where there is a fundamental asymmetry between 0 (absence of an attribute) and 1 (presence of an attribute). In similar situations in ecological applications the Ochiai similarity coefficient that measures joint presence of attributes rather than joint absence of attributes is often used. Using this similarity coefficient to produce Principal Coordinates yielded a solution with very good face validity. The first Principal Coordinate was accordingly identified as the measure of business development (Full BDM scale).

Construction of a Short BDM Scale

As the full BDM scale requires values for all 263 variables it would be difficult to use to assign a BDM score to businesses not included in the original sample. For this reason, Stepwise Linear Regression was used to construct a shorter scale that would yield a good approximation to the full BDM scale. Using the full BDM score as the dependent variable and the 263 original variables as independent variables stepwise regression analysis was carried out starting with one variable and continuing until no significant improvement was obtained by using additional variables.

It was found that using the best 20 variables identified by the stepwise regression gave a high correlation of 0.936 with the full BDM scores. Furthermore, the signs of the regression coefficients made intuitive sense, yielding a scoring procedure with high face validity. The items in the BDM20 and the regression coefficients are shown in Appendix A. The short BDM scale was standardized to have a minimum of 0 and a maximum of 100. It can thus be roughly interpreted as a percentage. It must be borne in mind, however, that a score of 100 does not represent a very highly developed business by the standards of developed countries.

This shorter scale (BDM20) is very easy to administer to other businesses and still gives a very good approximation to the full BDM score. Administration could be done using an Excel spreadsheet to calculate the BDM20 score using the regression weights given in Appendix A with appropriate adjustments to give a scale ranging between 0 and 100. A simpler approximate procedure would to simply use a score

of 5 each correct response and 0 for each wrong response. The correct responses would be “Yes” for the positively signed items and “No” for the negatively signed items as shown in Appendix A. As the weights do not vary over a very large range this would not be an unreasonable scoring procedure to use.

K-Means Clustering

BDM segments were constructed using the SPSS k-means cluster procedure. K-Means analysis was made with three clusters specified, as it was found in the Eswatini BDM analysis that more clusters are not appropriate for a developing economy.

Final Construction and Ordering of BDM Segments

The average BDM score for each cluster was used to rank them to give the final BDM segments. These average BDM scores and the weighted population percentage represented by each cluster are given in Table 6.

Table 6: Average Business Development Measure and Population Percentage for each Segment

Segment	Average BDM Score	Population Percentage
Least developed	14.27	42.7
Emerging business	34.61	41.8
Most developed	64.63	15.6

It can be seen from Table 6 that the bulk of the population of small businesses score low or very low in overall development. While the segments are ranked on the basis of the overall measure of business development, the segments can differ on variables representing other characteristics of businesses as well that are relevant to policy formulation or resource allocation. The primary interpretation of the segments is thus in terms of their profiles on all the survey variables on which they differ substantially. Tables profiling these segments on a large number of the survey variables have been prepared by FinMark Trust and are presented in the main report.

Appendix A: BDM20 regression output and coefficients

Note: positive coefficients signal a less developed business, for example, (i) businesses that do not use any service or function operationally are less developed, (ii) business not aware of organisations giving advice to small businesses are less developed.

Model indicators (variables)	Coefficients	Variable label
(Constant)	0.019	
P2_12	0.042	QP2. Service or function currently used - None of these
O1_16	0.038	QO1. Awareness of organizations giving advice or assistance to small businesses in Eswatini - None
I1_capitalless10000_binary	0.036	QI1. Capital needed to start or take over this business?
R5_expenses_less2500_binary	0.032	QR5. Approximate expenses of this business in Emalangeni
B1_binary	0.028	QB1. Number of small businesses owned
E3_2	-0.019	QE3. How your customers find you - Come back to you i.e. repeat business
Q4_18_binary	-0.019	QO4. Type of assistance received - How to market a business
B11_18	-0.023	QB11. Business has access to: - Phone / cell phone
B11_05	-0.023	QB11. Business has access to: - Electricity
Q4_15_binary	-0.023	QQ4. General perception or outlook: You are satisfied with what you have achieved so far in your business
B11_07	-0.026	QB11. Business has access to: - Toilet facilities inside

G1_9_binary	-0.027	QG1. Financial products used for business specifically: Bank Debit Card i.e., visa electron
M1	-0.032	QM1. Do you keep financial records for your business?
F8_2_binary	-0.033	QF8. Compliance of business to/act in accordance with - Pay as You Earn (PAYE)
G1_2_binary	-0.034	QG1. Financial products used for business specifically: Current / Cheque Account
B5_5	-0.034	QB5. Mode of travel to place of business - Own car / motorbike
G1_1_binary	-0.035	QG1. Financial products used for business specifically: Savings / Transaction Account
J1	-0.036	QJ1. Do you save or put money away or invest for business purposes?
F5	-0.054	QF5. Business licensing status
F8_10_binary	-0.062	QF8. Compliance of business to/act in accordance with - Overtime (hours extras)

Contact

For further information about **FinScope MSME Eswatini 2017**, please contact:

Microfinance Unit

Tel: +268 24049615

www.mfu.org.sz

FinMark Trust

Tel: +27 11 315 9197

www.finmark.org.za

Mr David Mfanimpela Myeni

davidmyeni@mfu.org.sz

Dr Kingstone Mutsonziwa

kingstonem@finmark.org.za

Mr James Sicelo Manyatsi

jamesmanyatsi@mfu.org.sz

Mr Obert Maposa

obertm@finmark.org.za



FMT
FINMARK TRUST
Making financial markets work for the poor